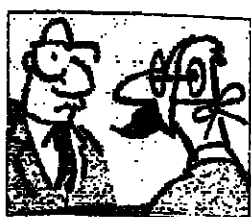


FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

MONDAY MARCH 1 1999



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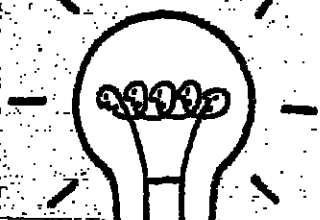


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Mastering Information Management

The FT's 12-part series on the I in IT continues today.
Part Five: new organisational forms
Separate section



WORLD NEWS

German unions win 3.1% public sector pay deal

Trade unions representing more than 3m German public sector workers have won a pay increase of 3.1 per cent, far in excess of the annual inflation rate of 0.2 per cent and more than the government had envisaged in its draft 1999 budget. The pay deal, which will take effect in April and run for 15 months, was agreed on Saturday, less than two weeks after the engineering workers' union IG Metall, the biggest in Germany, won a wage increase worth roughly 4 per cent a year. Page 18

Israel attacks Hizbollah targets Israel carried out air strikes on Hizbollah targets north of Israel's south Lebanon occupation zone after guerrillas killed three Israeli soldiers. Brigadier-General Erez Gerstein, commander of the Israeli Army liaison unit to Lebanon, was among the victims. International, Page 3

Clinton debt plan attacked US President Bill Clinton's proposal to provide well-behaved emerging market countries with credit lines to ward off financial crises is running into opposition on the International Monetary Fund's executive board. International, Page 3; Personal View, Page 16

India raises direct taxes India has raised direct taxes for the first time in a decade in a budget flagged by finance minister Yashwant Sinha as launching a "medium-term strategy" to restore the country's "fiscal health". Asia-Pacific, Page 8

Ethiopia declares 'victory' The Ethiopian government has declared "total victory" in its border war with Eritrea after recapturing the contested Badme region, although Eritrea said fighting was continuing. Earlier Eritrea said it accepted a peace plan endorsed by Ethiopia.

Greens keen to boost EU role Green parties signalled their determination to play a bigger role in setting the European Union's economic and social agenda by agreeing a common programme to fight the June elections to the European parliament. Europe, Page 2

Role for UN sought in East Timor Portugal and Australia want a United Nations presence in East Timor to help ease tensions as the territory moves towards autonomy or independence from Indonesia. But Australia says an armed peacekeeping force is not required. Asia-Pacific, Page 6

Zambia tightens security Zambia has deployed police and troops in the capital Lusaka after six bombs exploded, killing one security guard.

Anwar assault admitted Malaysia's former police chief Abdul Rahim Noor has admitted beating the sacked deputy prime minister Anwar Ibrahim during detention. Asia-Pacific, Page 8

BUSINESS NEWS

German energy group threatens to transfer business abroad

RWE, German energy and industrial group, has threatened to transfer some of its business operations abroad in protest at the centre-left government's planned tax reforms. Page 19

The world's leading 10 investment banks have almost doubled their fee-based and advisory business in the global capital markets, says a report. They now have 77 per cent of the market. Page 19

Singapore has opted for caution in its Budget, providing only mild stimulation for the economy while focusing on improving long-term competitiveness. Page 6

Olivetti is expected this week to seek new allies to support its £53bn hostile bid for Telecom Italia. The push follows its clearance for a revamped takeover offer from Consob, the Italian stock market regulator. Page 19

South African Breweries, the world's fourth largest brewing group, starts conditional share dealings on the London Stock Exchange today. Page 19; Lex, Page 18

Pearson, publisher of the Financial Times, and Gruner + Jahr, German publishing group controlled by Bertelsmann, will today detail plans to launch a new German business newspaper. Page 21

London and Frankfurt stock exchanges have begun consultations with investors, brokers and listed companies about harmonising hours as part of a plan to develop a pan-European market for Europe's top 300 companies. Page 18; Comment, Page 20; Putting on brave face, Page 23

Nokia, mobile telecoms group, plans to increase its workforce by up to 25 per cent this year. Page 22

A record number of fund managers launched cross-border joint ventures last year despite evidence that more than half fail within three years, according to a new report. Page 23

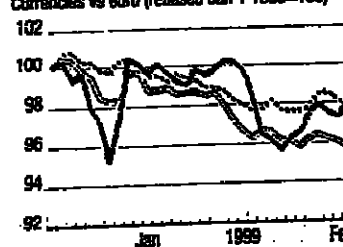
Gucci comes under attack this week when LVMH, French luxury goods group, starts legal proceedings against the board of the Italian fashion house in the Amsterdam Court of Appeal. Page 21

Volvo of Sweden has stepped up plans to expand in commercial vehicles with a twin-track strategy involving Sweden's Scania and Navistar, US truck and engine group. Page 21

Henderson investors, UK-based fund management company, has agreed to buy the real estate portfolio of US mutual life insurer Phoenix Home Life. Page 23

IT International Theatres, Israel's largest cinema group, is set to become the nation's first company to list its shares on Easdaq, the pan-European stock market for growth companies. Page 23

Progress of the euro



The euro has had another poor week, with continued conflict between central bankers and euro-zone politicians clouding its prospects. It broke below the key \$1.10 level against the dollar several times during the week.

Euro-zone, Page 27

Euro exchange rates

Dollar	1.0676
Yen	130.248
Sterling	0.6553
Swedish krona	9.9148
Denish krona	7.4345
Greek drachma	321.750
Swiss franc	1.6087

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Obasanjo wins Nigerian poll

Former military ruler succeeds in election seen by observers as fair

By William Wallis in Lagos

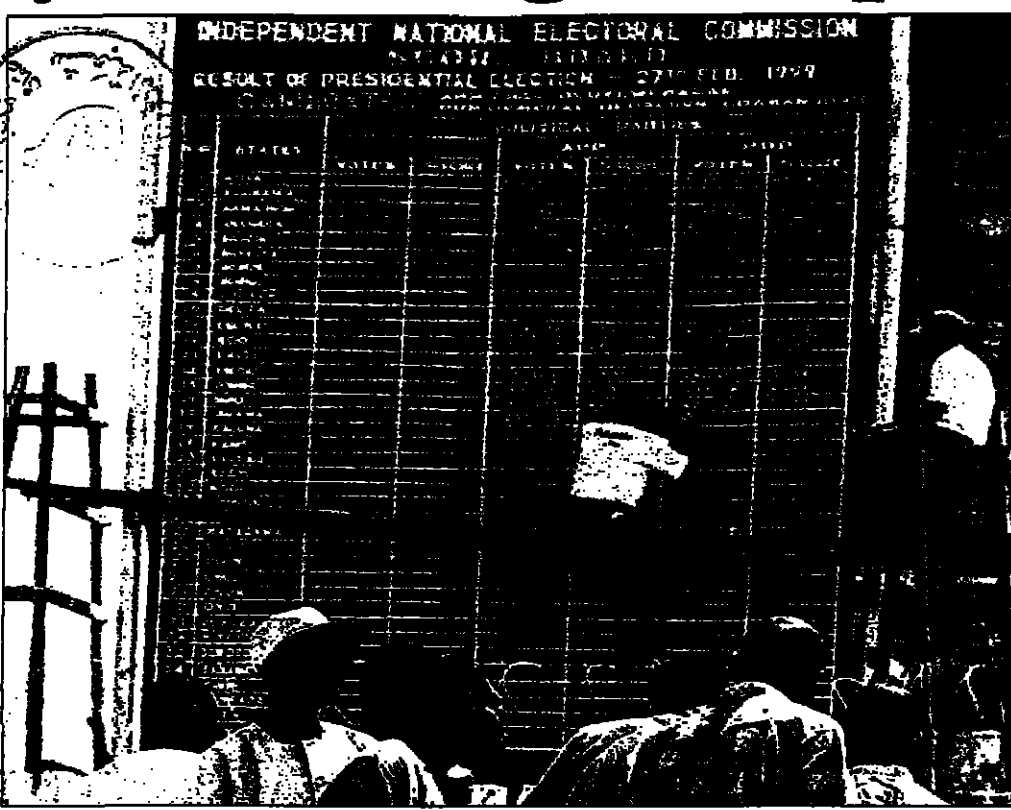
Olusegun Obasanjo, Nigeria's former military ruler, swept back to power yesterday as the state's first elected civilian leader in 15 years.

Although the outcome of Saturday's presidential election was denounced by his only rival, Olufemi Falae, General Obasanjo's victory - with a margin of at least 6.5 million votes and commanding 60 per cent of ballots cast - left most foreign observers satisfied it was a fair outcome.

Chief Falae said in his home town of Akure: "From what I have heard so far, the election has been a farce. I said if General Obasanjo won a free and fair election I would congratulate him, but clearly this was not a free and fair election." Reports from Akure, however, suggested the mood was more of resignation than defiance.

General Obasanjo, 61, was Nigeria's military leader from 1976 to 1979. He presided over the election of the last civilian government, which was overthrown after four years. He inherits a country in deep economic crisis and torn by regional divisions.

Among his most challenging tasks will be to resolve the conflict in the oil-producing south, where militant local inhabitants have forced a big cut in Nigeria's production of 2m barrels of oil per day in their campaign for a fairer share of revenues.



A scoreboard outside the Nigerian Electoral Commission details Gen Obasanjo's election victory yesterday. Reuters

Although he will not be inaugurated until May 29, one early decision is critical - whether to endorse a recent IMF agreement which is an essential pre-condition to rescheduling Nigeria's \$38bn external debt and winning urgently needed loans.

Observers had expressed serious concern over ballot rigging. But most concluded that both sides were to blame and said it had not significantly affected the outcome. Jimmy Carter, the former US president who jointly

leads an American delegation, said: "There were some disparities noted by... my wife and I and also by members of our delegation."

As expected, General Obasanjo fared badly in the ethnic Yoruba region of south-west Nigeria. Although both men are Yorubas, General Obasanjo is widely respected by his own people. Chief Falae's strong showing could strengthen their calls for the autonomy of a region which includes the commercial and

industrial capital of Lagos. General Obasanjo did well in the north, which has been the dominant force in Nigerian politics since independence in 1960. The turnout was higher than 50 per cent of an estimated 40m voters. The presidential poll was the last in a series of elections, part of a phased handover to civilians initiated by the military head of state, General Abdulsalam Abubakar.

Safest pair of hands, Page 3

Business rejects tax harmony calls

By Kevin Brown and Jim Kelly in London

Europe's business community is overwhelmingly opposed to German and French calls for an end to the national veto on tax issues and harmonisation of corporate taxes across the EU, according to an FT survey of business organisations.

The survey suggests that there would be strong business opposition to any attempt to pursue the suggestion, put forward separately by Oskar Lafontaine, the German finance minister, and Dominique Strauss-Kahn, his French counterpart. Mouvement

des Entreprises de France was the only one of 15 business organisations in 14 EU countries to give full backing to tax harmonisation and qualified majority voting in the council of ministers.

However, Jacques Creyssel, its director, said majority voting could be contemplated only if there was a clear policy for reducing taxes and social security levies. Otherwise it would be better to retain tax competition.

The two German business organisations, the BDA and BDI, firmly rejected the Franco-German proposals, as did the Confederation of British Industry, Italy's Confindustria and most of the

smaller countries' business organisations. The Federation of Swedish Industries favoured harmonisation of the tax base, but not of rates. Belgium's VBO-FEB and the Federation of Greek Industries backed majority voting, but the Belgians were firmly against harmonisation.

Business leaders in several countries suggested that the initiative was aimed at increasing the overall level of EU taxes rather than at weeding out unfair tax schemes that might damage other EU states.

John Dunne, director general of the Irish Business and Employers' Confederation, said tax com-

petition was one of the few economic weapons left to euro-zone countries. "If we lose that battle in the longer term, it should be tax harmonisation down to where we are, not upward to where other countries are," he added.

The survey revealed a strong feeling across Europe that competition between tax regimes was beneficial. But business leaders said tax regimes should not discriminate between domestic companies and those based in other member states. There was also a widespread view that corporate taxes are too high.

Tax harmony? No thanks, Page 17

Taiwan warns it might be forced to strengthen defences

By Mure Dickie and Peter Montagnon in Taipei

Taiwan President Lee Teng-hui has warned that continued military pressure from China will force the island to develop its defences. He says his government is already interested in a proposed US-led missile defence system.

In an interview with the Financial Times, conducted amid US reports of an escalation of China's missile forces, Mr Lee said Beijing's actions were the most important factor in deciding the merits of a proposed US theatre missile defence (TMD) system that might render mainland missile batteries impotent.

"They already have so many missiles," Mr Lee said. "If [the mainland Chinese] are not going to reduce their military threat to Taiwan, we must prepare our defence systems."

In a signal of growing official enthusiasm for TMD, Taiwanese newspapers yesterday quoted senior military sources as saying that Taiwan was making the purchase of US Aegis warships, which could play a key role in any missile defence system, its highest procurement priority.

China has fiercely opposed Washington's development of TMD, even though the project is

still in its early design stages. Beijing last week made a veiled threat to transfer missile technology to third countries if the US extends the shield to cover China's neighbours, including Taiwan, which China considers a renegade province.

Madeleine Albright, the US Secretary of State, arrived in Beijing yesterday for a two-day visit overshadowed by the dispute over defence issues.

The Clinton administration last week vetoed the sale of \$450m worth of telecommunications satellites to China, saying the Chinese military was part of the buying consortium. The US also criticised China's human rights record.

Mr Lee stressed the importance of dialogue and said that in the long-term there must be reunification of the mainland and Taiwan. But he gave no hint of a softening in Taipei's stance on key issues, threatening a recent fragile cross-strait rapprochement.

Taiwan would continue to insist on dealing with Beijing as a separate and independent entity and would keep up its drive for greater diplomatic recognition, he said. Talks should focus on practical issues.

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WORLD NEWS

EUROPE

France seeks pause in talks on EU reforms

By Robert Graham in Paris

France called yesterday for a breathing space in negotiations on the reform of the European Union's farm policy to allow the French and German governments time to bridge the wide divide between their positions.

The French call under-

scored Paris's growing reluctance to be pushed into a quick deal on the domestically sensitive topic of farm policy before the European parliamentary elections in June.

If a delay is accepted by other EU members, French officials recognise it would be harder for the Germans to achieve their ambitious plans to reform the EU's finances under their presidency, which finishes at the end of June.

The agriculture ministers of the 15 members should resume talks in Brussels tomorrow after a marathon four-day session last week and an informal summit of EU leaders on Saturday near Bonn failed to make significant progress. The main sticking point has been the isolation of France, unwilling to concede a reduction in the privileged position of French agriculture without a global deal on restructuring the EU's finances.

"I am not sure that the European Commission and the German presidency are capable of revising their papers and coming up with new proposals between now and Tuesday," Jean Glavany, the French agriculture minister, said yesterday. "If they can, then we will talk. If not, then it's better to put things back."

Mr Glavany said the failure of last week's negotia-

tions showed very clearly that when there is no agreement between France and Germany, the EU is blocked.

He added: "We could wait several days, even a couple of weeks, before reconvening the council of agriculture ministers so as to allow time for France and Germany to work towards an intelligent compromise."

The powerful French farmers' lobby has already warned the Socialist-led government against making concessions in the talks reforming the Common Agri-

cultural Policy (CAP) that would undermine their incomes.

Over the weekend Luc Guyau, the chairman of FNSEA, the national farmers' union, praised the government for standing firm against "co-financing" - a German move to shift agricultural support from the CAP on to national government budgets.

Mr Glavany said the informal summit of EU leaders over the weekend had "put lead in the wings" of the idea of "co-financing".

Paris has also rejected the

latest Commission ideas to cut the prices farmers are guaranteed for beef by 25 per cent instead of 30 per cent.

The agriculture minister said this move merely helped big rich farmers, while posing a real threat to small farmers whose support the leftwing government has begun to cultivate. France has proposed the beef support cut be limited to 5 per cent.

The French have also called for a postponement of discussion on reorganising milk quotas, arguing this would be costly.

President Boris Yeltsin was yesterday said to be in a "stable" condition in hospital after suffering further complications with a bleeding stomach ulcer. But Yevgeny Primakov, prime minister, flew off to the Black Sea resort of Sochi on Saturday for a 10-day holiday.

"If the situation required the premier to stay in Moscow, he would not have flown to Sochi," a prime ministerial spokesman said. Mr Yeltsin has recently been attempting to raise his political profile again after being marginalised for the past few months. But doctors said the president's latest health setback had been caused by overwork. Mr Yeltsin ignored his doctors' advice last month to fly to Jordan to attend the funeral of King Hussein. He has also held recent meetings in Moscow with Zhu Rongji, the Chinese premier, and other leaders of the Commonwealth of Independent States. John Thornhill, Moscow

Yeltsin 'stable' in hospital after fresh setback

Greens keen to boost EU role

By Robert Graham

Europe's Green parties yesterday signalled their determination to play a bigger role in setting the European Union's economic and social agenda by agreeing a common programme to fight the June elections to the European parliament.

At what was only the second congress of European Green parties, the increased importance of the movement was underlined by the Greens' status as members of government coalitions in four of the 15 EU countries - Finland, France, Germany and Italy.

The Green platform, endorsed at a three-day congress of European Green parties in Paris, seeks to capture voters across the traditional right-left divide.

It pledges to build a "citi-

zen's Europe", with an extension of the powers of the European parliament, while bringing EU institutions closer to the electorate.

Apart from the traditional emphasis on phasing out nuclear power, the Greens have committed themselves to work for a more humane immigration policy. The manifesto also calls for environmental taxes to play a bigger part in the fiscal system and for greater fiscal fairness by reducing tax competition between states.

The programme and accompanying resolutions on issues such as Kosovo and Kurdistan were adopted by more than 300 delegates.

"This is the first time we have really got together, and despite our different histories sought to share a common platform," said Franz Floss, spokesman for the Fed-

eration of European Green parties, which embraces groups in 28 countries in and outside the EU.

The Greens have 27 members in the outgoing European parliament, with 13 from Germany.

France, where the Greens' list is headed by Daniel Cohn-Bendit, the charismatic student leader of 1968, is thought likely to elect Green MEPs for the first time.

The mood of political maturity was caught by Joschka Fischer, foreign minister in the German government and symbol of the Green movement's new status.

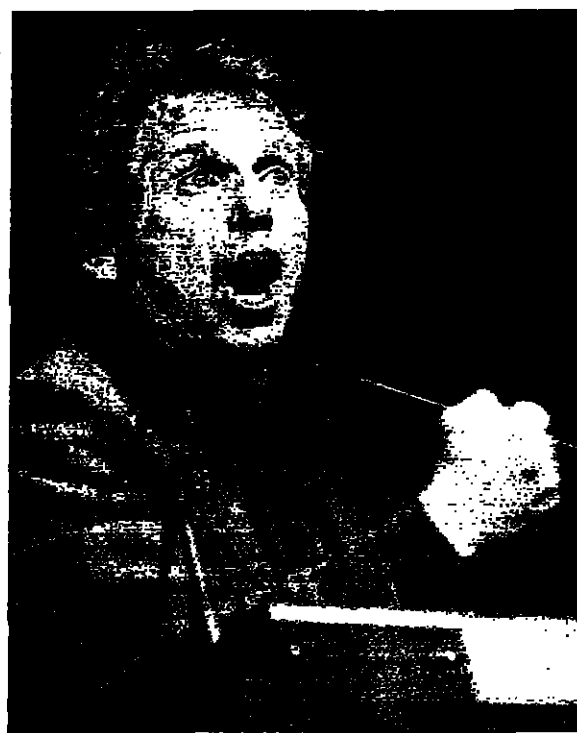
He said it was not easy to move from a culture of protest to the exercise of power, citing as an example the recent back-tracking of the German government on nuclear power proposals.

"Every government makes mistakes at the outset," he said. "One must just make sure one does not make the same mistake twice."

Pekka Haavisto, the Finnish environment minister, was similarly realistic, advising her fellow Greens "to learn to be happy taking small steps at a time".

Behind the scenes, the French and German delegations sought to ease tensions between their countries caused by the German government's initially tough line on phasing out nuclear power and nuclear waste reprocessing.

Outline agreement was reached on the highly sensitive issue of German nuclear waste treated in France and the UK. The German Greens said they would not oppose the return of the waste provided the shipments were secure.



Cohn-Bendit is likely to be France's first Green MEP

Migrant fund plan in gesture to Bonn

By Peter Norman in Brussels

Spain has suggested solving the vexed issue of Germany's high net contributions to the European Union through a special fund to offset the costs of immigration and asylum seekers.

Jose Maria Aznar, the Spanish prime minister, proposed that an EU programme worth about €3bn (£3.3bn) a year be set up for member states that face pressure of immigration from the applicant countries of eastern and central Europe and which also bear an excessive financial burden from refugees and asylum seekers.

The funds would mainly help Germany, which wants to reduce its €11bn net contribution to the EU, and Austria. The programme would remove one of the main stumbling blocks in the Agenda 2000 negotiations on reform of the EU's budget, farm and regional policies.

It was not immediately clear whether the proposal, outlined by Mr Aznar at last Friday's special informal summit of EU leaders near Bonn, would gain support. Germany, which currently holds the EU's rotating six-month presidency, is pushing for budgetary rigour in Europe, with a stabilisation in real terms of spending from 2000 to 2006.

Some observers suggested Mr Aznar's plan might be a ploy to divert discussion away from plans to cut Spain's entitlement to EU financial support in the Agenda 2000 negotiation. Spain adopted an especially hard line in Friday's discussions, rejecting the German presidency's suggestion that structural fund payments should be capped at €200bn in the seven-year period of an Agenda 2000 settlement.

Largely because of Spain's tough stance, Mr Schröder was unable to announce any concrete advance in the Agenda 2000 negotiations last Friday although some EU member states hinted of a willingness to compromise.

Tony Blair, UK prime minister, insisted he would not "negotiate away" Britain's EU budget rebate, agreed in the 1980s, but British officials said the UK was prepared to make sacrifices.

Mr Schröder said Germany was not seeking "a lottery jackpot" but wanted to see the rising curve of its net contributions to the EU turn down. He warned Spain and other countries benefitting from the cohesion funds, conceived to help them adapt for the euro, by saying there were no plans to stop payments abruptly.



Not all the Silicon Valleys are growing out west. This one, in fact, isn't even west of Pittsburgh.

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companies in the U.S., Kingdom's rapid annual growth rate is projected to be 50% over the next three years. And thanks to business incentives like a 10% R&D tax credit and Tech 21, the Governor's initiative for a high-tech Pennsylvania, other emerging-tech companies are taking root here as well. No wonder Pennsylvania is a top ten state in high-tech industry. So join the rush and move your high-tech business here. With all the valleys in Pennsylvania, you could have one all your own. For more information call 1-800-554-PENN.



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NEWS DIGEST

PRIMAKOV STICKS TO HOLIDAY PLAN

Yeltsin 'stable' in hospital after fresh setback

President Boris Yeltsin was yesterday said to be in a "stable" condition in hospital after suffering further complications with a bleeding stomach ulcer. But Yevgeny Primakov, prime minister, flew off to the Black Sea resort of Sochi on Saturday for a 10-day holiday.

KOSOVO VIOLENCE

Serb policeman killed

One Serbian policeman was killed and four were wounded in southern Kosovo yesterday as government forces battled with separatist ethnic Albanian guerrillas on the first anniversary of the war in the province. International observers said between 2,000 and 3,000 ethnic Albanian refugees who fled the fighting around Kacanik, 15km north of the Macedonian border, were prevented by Serbian authorities from crossing over as refugees.

"There are 1,000 or 1,500 people queued up along the highway about 500 metres short of the Macedonian border," said a United Nations spokesman. Thousands of ethnic Albanians, including guerrilla units, marked the first anniversary of the war in the Serbian province yesterday with a sombre ceremony in the village of Likosane.

Twenty-five ethnic Albanians, including 10 members of a single family, were killed in the village a year before after fighting sparked by a police ambush of a car carrying four Kosovo Liberation Army guerrillas. Reuters, Pristina

AIR TRAFFIC DISPUTE

Strike threat to Helsinki airport

Finnish air traffic controllers are this week expected to step up industrial action that has paralysed the domestic airline network and disrupted international air traffic over the past three weeks. Helsinki airport is likely to close for two days a week, beginning tomorrow and Wednesday, following a collapse in pay talks between the country's civil aviation authority and air traffic control unions.

Finnair, the national airline, warned at the weekend that it would begin laying off staff if the dispute was not resolved quickly. The partially privatised flag carrier, which has lost FM105m (£17.6m, \$20m) since the strike began, declined to say how many of its 9,000 staff would be affected.

Air traffic controllers are seeking a 26 per cent pay rise and additional benefits including company cars. They have been offered a 12 per cent salary increase. The average monthly wage among the country's 250 controllers is: FM25,000. The dispute has focused attention on industrial relations and wage moderation in the run-up to Finland's general election on March 21. Finnair has warned that the closure of Helsinki's Vantaa airport will increase its weekly losses to FM55m. Tim Burt, Stockholm

IMF WEIGHS LOAN

Praise for Romanian reforms

The International Monetary Fund has said Romania has made "solid progress" on economic reforms in recent months, and that Bucharest's formal request for a standby loan would be "considered" by the Fund's executive board in June. This year Romania faces foreign debt service payments of \$2.9bn, the bulk of which falls due in May and June. Radu Vasile, the prime minister, has said that if Romania does not sign loan accords with the IMF, the "worst economic collapse scenarios might come true".

Romania is negotiating a \$480m standby agreement with the IMF, to be dispersed in six tranches over 18 months. Emmanuel Zevourakis, the IMF's Romania director, said his team would return to Bucharest in April.

● Romania's central bank said yesterday it had placed Bancorex, a troubled state-run bank, under special administration to help it restore normal operations. Mr Vasile said he hoped extraordinary powers extended to a special administrator would help the bank get ready for privatisation this year. Joe Cook, Bucharest

DISPUTE OVER KURDS

Turk call for Greek sanctions

Turkey's president has called on Nato allies to impose sanctions on Greece for supporting the PKK guerrillas of Abdullah Ocalan, the imprisoned Kurdish rebel leader.

President Suleyman Demirel opposes granting minority rights to Turkey's Kurdish population. He hinted last week that Turkey could use military force against Greece unless it renounced what he saw as support for the PKK.

Turkey has long accused Greece of providing aid and training to Ocalan's rebels, but Greece has denied the accusations, saying it helped Mr Ocalan only as a humanitarian gesture. AP, Ankara

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NIGERIAN ELECTIONS FORMER MILITARY LEADER HAS PAID DUES

Obasanjo seen as safest pair of hands

By William Walls in Lagos

Whatever protest his opponent, Olu Falae, has made over the irregularities in the weekend's presidential election, Nigeria's future appears to rest in the hands of Olusegun Obasanjo.

For millions of Nigerians who voted for the erstwhile military ruler, as well as for well-wishers in the west, those hands represented the safest pair on offer to guide Nigeria through one of its most turbulent periods since the Biafran civil war in the 1960s.

Only eight months ago the 61-year-old former general was behind bars, victim of the most sinister and brutal dictatorship Africa's most populous state had known.

In most parts of the world such a precipitous journey from jail to victory in presidential elections would be considered remarkable. But many Nigerians appear to have overlooked the fact that the general, who ruled the country from 1976 to 1979 before becoming a chicken farmer after his hand-

over, has paid some dues.

He served more than three years as a political prisoner, as well as spending the better part of two decades campaigning across the globe for good governance as a leading figure in Transparency International, the Berlin-based anti-corruption lobby.

He also won plaudits for his role as a member of a Commonwealth Eminent Persons Group which made contacts in the 1980s with then jailed South African leader Nelson Mandela, starting a dialogue that paved the way for an end to apartheid.

What makes him such a controversial figure among those who cast their vote the other way is the loathing he harbours now for all forms of military involvement in government. In his campaign, Chief Falae repeatedly stressed that, regardless of how long ago General Obasanjo traded in his uniform for the flowing agbada robes traditional to his Yoruba ethnic group, he retains a "military mindset".

Opposition to him proved

strongest among his own Yoruba group, which has not forgiven him for what it sees as the backing he gave the northern candidate he handed over to after elections in 1978. Among the Igbo ethnic group in the east, attitudes have been more ambiguous.

In 1998 it was Gen Obasanjo who received the surrender of the Igbo rebels fighting for a separate Biafran state.

When calculating their own future after deciding to forgo their traditional monopoly on the top job in the interests of national unity, northern leaders backed Gen Obasanjo.

For his detractors the fact that it was retired generals and establishment figures who bank-rolled his campaign could prove his undoing.

But those who know the general say he is unlikely to be a stooge of the confluence of northern political and military establishments which has done much to win him back the presidency.

"Obasanjo is a man who



Olusegun Obasanjo waits in line on Saturday to cast his vote. AP

believes in the system, and leadership to him means tinkering with the existing structures to evolve a more dynamic one in which hard work is encouraged and rewarded and indolence and waste and indiscipline are discouraged with enforceable sanctions," says Onukaba Ojo, who wrote his official biography.

This conservatism is seen by some as worrying at a time when radical reform beckons. While the official

figures give him a solid mandate to go into office, they seem unlikely to end the controversy his re-emergence has provoked.

For some Nigerians he lacks the intellectual capacity to work out how to rescue the country from economic collapse. For others a tough paternalist who knows, from within, the workings of the army which has deprived Nigeria of transparent government for so long was the safest bet.

Israel vows to avenge Hizbollah killings

By Avi Machlis in Jerusalem and James Schofield in Beirut

Israel yesterday vowed to strike back at Hizbollah, the Lebanese Islamist Shia movement, after its guerrillas killed a senior Israeli commander and two other soldiers in Israeli-occupied southern Lebanon.

The Israeli army yesterday confirmed that Brigadier-General Erez Gerstein, commander of the Israeli army's liaison unit to Lebanon, had been killed. A journalist with the convoy on assignment for Voice of Israel radio was also killed.

Hizbollah detonated a roadside bomb as a military convoy passed by in the eastern sector of Israel's "security zone" in southern Lebanon. The attack came less than one week after Hizbollah killed three Israeli army officers and raised the Israeli military death toll in south Lebanon to seven this year. Israel, its Lebanese Christian allies and Hizbollah have engaged in a spiralling cycle of violence. Israel killed at least three Hizbollah fighters last week, Israeli jets have bombarded suspected Hizbollah positions and yesterday

two Hizbollah rockets hit a northern Israeli town.

Before Israel confirmed the attack, Benjamin Netanyahu, Israeli prime minister, said Israel "could not tolerate these kinds of repeated attacks... and Israel will know what to do in response". He spoke in Amman where he met senior Jordanian officials and King

'When the Israelis came here, they didn't ask permission'

Abdullah but the first meeting between the two leaders since the death of Abdullah's father, King Hussein, last month was overshadowed by the Lebanese tensions.

Mr Netanyahu hoped to smooth relations after he angered Jordan last week by saying Israel feared Iraq could become a nuclear power and then threaten Israel from the Israel-Jordan border. After meeting Mr Netanyahu, Faysal al-Tarawneh, Jordanian prime minis-

ter, said the issue had been "clarified".

In Lebanon, Naeem Qasem, Hizbollah deputy secretary general, said the attack "confirms our determination" to continue fighting Israel until it withdraws unconditionally from southern Lebanon. Ibrahim Moussa, Hizbollah spokesman, in response to a question why Hizbollah appeared to be stepping up attacks, said: "When the Israelis came here, they didn't ask anyone's permission."

Last year, Israel offered to withdraw from Lebanon based on UN Security Council resolution 425 from 1978 which called for an immediate Israeli pullout. But Israel, which says it needs to maintain its presence as a buffer against guerrillas, also demanded security guarantees from the Lebanese government.

Mounting Israeli casualties have changed public opinion on Lebanon substantially in the last two years. A public opinion poll last Friday in the Israeli daily Ma'ariv showed that 35 per cent of Israelis now supported unilateral withdrawal while 53 per cent objected.

IMF executives cautious over credit line plan

By Robert Chote, Economics Editor

US President Bill Clinton's proposal to provide well-behaved emerging market countries with credit lines to ward off financial crises is running into opposition on the International Monetary Fund's executive board.

Some European countries and poorer developing nations feel they are being railroaded into support for the initiative by the US and the UK, which in turn are supported by some of the emerging market nations that might benefit from it.

President Clinton's plan would see countries with a good policy record offered a precautionary line of credit. In effect boosting the reserves they have available to defend themselves against speculative attacks.

The finance ministers and central bank governors of the Group of Seven leading industrial nations gave apparent backing to the plan in the communique of their recent meeting in Bonn.

"We welcomed the substantial progress in developing an enhanced IMF facility providing a contingent short-term line of credit, accompanied by appropriate private sector involvement," the G7 said.

"We will work at the IMF to ensure that this facility is introduced as soon as possible."

But one senior European official said there remained doubts about the scheme, even within the G7. "The reference to the 'enhanced facility' is German code for 'be careful'," he said.

Onno de Beaufort Personal View, Page 16

Wijnholds, the IMF executive director for the Netherlands, expresses the concern of opponents of the scheme in an article in today's FT. In an unusually public intervention for an IMF director, he argues that the credit line proposal is "not helpful".

Mr Wijnholds believes the credit lines would encourage private sector investors to lend too much to risky emerging market countries. By providing an upfront guarantee to countries on the basis of past policies, it would also weaken discipline on them in the future.

"For those who are sceptical about this argument, I would suggest they think about what would have happened if such a contingent credit line had been available to Indonesia or South Korea in 1997, or to Brazil in 1998," he says.

The IMF board will next discuss the proposal on March 12.

One area of contention will be whether the credit lines form a new facility (in which case they will require 85 per cent support on the board) or a window in the existing supplemental reserve facility (in which case only a simple majority in favour will be needed).

There are also doubts within the IMF's senior management about the wisdom of the credit line proposal. Michael Mussa, the Fund's economic counsellor, has opposed the idea in the past, arguing that the IMF board would be very reluctant to withdraw credit lines from countries where policies deteriorate.

Iranian voters back reformists

By Robin Allen in Tehran

A heavy turnout, notably by young voters, and partial early returns from Iran's nationwide local council elections augured well yesterday for reformist supporters of President Mohammad Khatami.

More than 300,000 candidates were competing for some 200,000 local council seats.

Balloting for local seats ended late on Friday, with official results expected later this week.

Iranian analysts have described the elections as the first in the country's history to be free of pre-election rigging and the threat of annulment by autocratic unelected bodies now controlled by clerical and judicial hardliners.

By yesterday afternoon, according to officials at the Interior Ministry's election headquarters, three reformist candidates - Abdollah Nouri, former interior minister, Saeed Hagerian and Mohammad Azgazzadeh, one of the former students who

helped occupy the US embassy 20 years ago - were clear leaders among nearly 4,000 candidates competing for 15 local council seats in Tehran, the capital and the key to reformists' hopes.

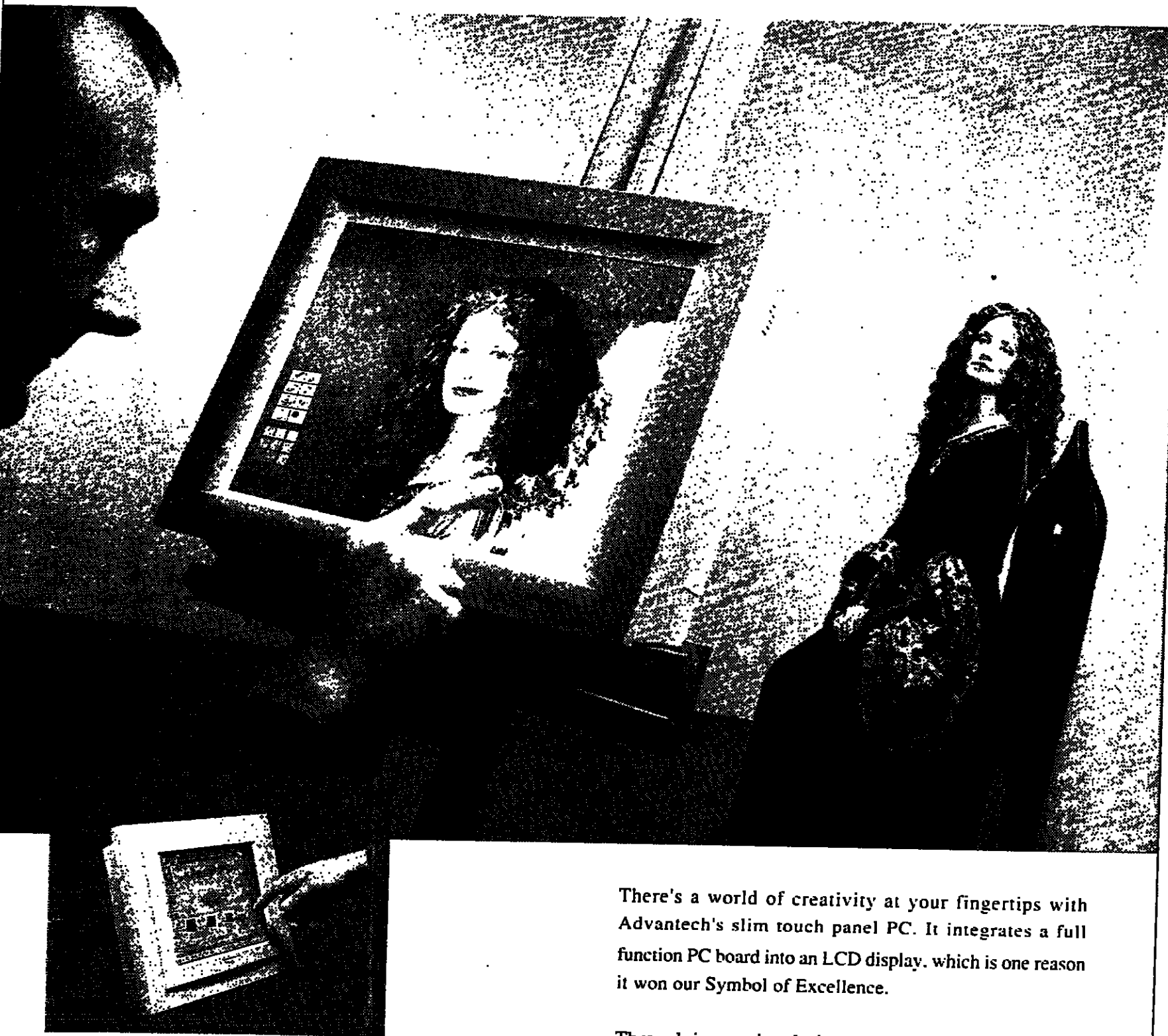
In Semnan, east of Tehran, and two other cities women have swept the board in council seats, and reformists across the country are reported to be well ahead in the count.

Counting still had to be approved by election committees and final results would not be announced for several days, officials said.

According to Neshat, a pro-Khatami newspaper, "the results of these polls will force the conservatives to change their political views and opt for reform. We are already witnessing signs of this coming from the lower ranks of establishment."

Reformists see the local polls as a key step towards loosening the conservatives' hold on parliament in general elections, due in March 2000.

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THE AMERICAS

Court to hear key case on discrimination

By Paul Winkler
in Washington

The US Supreme Court today hears a case which could have a big impact on the size of damages paid by US employers in employment discrimination lawsuits.

The court agreed to hear the case, *Carole Kolstad vs the American Dental Association (ADA)*, to clarify what kind of employer conduct will give rise to punitive damages - damages awarded to punish and deter an offender - in lawsuits involving sex discrimination. However, employment law experts said the suit was also likely to have a knock-on effect on race, age, and other employment discrimination suits brought under Title VII of the 1964 Civil Rights Act.

The case involves a female lawyer employed as a lobbyist for the ADA, a professional trade association. A jury found that Ms Kolstad was denied promotion because of intentional sex discrimination. The issue before the court is not whether this is so, but whether such discrimination must be "egregious" before punitive damages are awarded.

Title VII permits such damages where there was "malice or...reckless indifference to the federally protected rights of an individual". But in Ms Kolstad's case an Appeals Court found that the ADA's conduct was neither "egregious" nor "truly outrageous" enough to merit punitive damages.

At the moment there is confusion over the standard of conduct necessary to attract punitive damages, with the various circuit courts applying differing standards to define "reckless indifference". If the Supreme Court's decision in *Kolstad* - that the conduct did not meet the standard of "egre-

gious" - this would set a new standard nationwide that could limit the size of both jury awards and pre-trial settlements.

Conversely, if Ms Kolstad wins, jury awards and settlements could shoot up. Her lawyers argue in their brief that "egregious" is too high a standard, and that employees need only show that employers knew or should have known their conduct was probably unlawful in order to have claims for punitive damages put before a jury.

If adopted, this standard would subject employers to punitive damages virtually every time an employee engages in intentional discrimination against another," the US Chamber of Commerce argues in a brief filed to support the ADA.

"Our concern is that punitive damages would become the norm, not the exception, whereas the law clearly intends them to be the exception," says Stephen Bokst of the National Chamber Litigation Center, which has also backed the ADA.

According to Jury Verdict Research, which tracks jury awards, 40 per cent of verdicts in gender discrimination cases in the last six years have included punitive damages. The law caps damages at \$50,000-\$300,000 per plaintiff, depending on the size of the employer.

A lower court jury awarded Ms Kolstad back pay after a male employee in the same office was, according to her lawyers' brief, "preselected" for a promotion for which he was less qualified than she was.

The total cost of systems remediation of the Year 2000 problem for the securities is estimated at \$5m, according to the SIA. Cross-border testing of securities trading is due to be conducted in June.

Wall St gears for Y2000 tests

By Tracy Corrigan in New York

The calm that normally reigns on Wall Street outside trading hours will be disturbed next weekend when 5,000 traders, systems programmers and support staff conduct the securities industry's biggest test of Year 2000 compliance.

The industry-wide effort on Saturday and Sunday represents the second phase of Year 2000 testing for Wall Street, after tests last July. Those involved only 21 securities firms and eight exchanges.

Next weekend dealers will simulate trading on December 29, 1999, according to a prepared script, involving more than 400 firms, including the fund managers who are the ultimate buyers and sellers of most securities, as well as the traders who act as intermediaries and clearing firms and exchange staff. The testing, which continues on further weekends in March and April, will include simulating trading on December 30 and 31 and January 3. These dates were chosen because many of the securities being tested take three days to settle, so orders entered on December 29 will be the first to settle in the year 2000.

The firms involved account for the bulk of US securities trading, according to the Securities Industry Association which is co-ordinating the effort.

"We have the firms that account for 88 per cent of daily volume in the test," said John Panchery, Year 2000 project manager at the SIA. "Any small firms that have to test their Y2K compliance can do so with their clearing firms. Even if there is a problem with that small firm, the ripple effects would not be as great."

The total cost of systems remediation of the Year 2000 problem for the securities is estimated at \$5m, according to the SIA. Cross-border testing of securities trading is due to be conducted in June.

BRAZILIAN STAND-OFF PRESIDENT'S TALKS WITH GOVERNORS ISOLATE FRANCO OF MINAS GERAIS

Cardoso mends bridges with states

By Geoff Dyer in Brasilia

Brazil's President Fernando Henrique Cardoso has gone a long way toward breaking the impasse between the federal government and several state governors, a stand-off which had been threatening to undermine his administration.

Following a meeting on Friday with 25 of the 27 state governors, Mr Cardoso proposed a number of concessions to ease pressure on the states' finances. However, he refused to reopen negotiations about debt repayments to Brasilia.

The positive response that Mr Cardoso's proposals received, including from opposition parties, served further to isolate the one governor who did not attend the meeting, Iamar Franco of Minas Gerais.

It was the declaration of a moratorium on January 6 by Mr Franco, who is demanding a revision of Minas' debt repayments, which highlighted the financial problems of many states and sparked the confidence crisis that forced the recent currency devaluation.

"It was better than expected. It was a very positive meeting," said Anthony Garotinho, the opposition governor of Rio de Janeiro. "More than just opening a dialogue, the meeting overcame misunderstandings and obstacles," said Mario Covas, gov-



Cardoso, left, and defiant Governor Franco who warns: 'Our trench is ready'



that financial markets decide they will undermine Brazil's fiscal austerity drive. However, ministers argue that they are creating the conditions for states to make vital cuts in their spending.

The government hopes the perceived success of the meeting will allow Mr Cardoso, who has been widely criticised for indecision since the devaluation, to recover the political initiative.

He received a further boost on Friday when his nominee to head the central bank, Arminio Fraga, was comfortably approved by a Senate committee despite harsh criticism from opposition senators over his links with George Soros, the billionaire investor. The full Senate will vote on his nomination this week.

However, it is not clear how Mr Cardoso will resolve the conflict with Mr Franco, whose rhetoric has become ever more aggressive. "Our trench is ready," Mr Franco said last week. "We will resist in it as long as possible." He said on Saturday that he had no intention of withdrawing the moratorium.

CHARGES OF SEDITION OUTCOME WILL BE A CRUCIAL INDICATOR OF GOVERNMENT'S ATTITUDE TO REFORM

Cuban dissidents face trial today

By Pascal Fletcher in Havana

Four leading Cuban dissidents, whose case is widely seen abroad as a test of the communist leadership's attitude towards non-violent political opposition, are due to go on trial in Havana today charged with sedition.

The four - Martha Beatriz Roque, Félix Bonne, René Gómez and Vladimiro Roca - have been held for more than 19 months, despite appeals for their release from the Vatican, Canada, the European Union, the US and human rights organisations such as Amnesty International.

Family members said they had been informed by state security officers the trial would go ahead today. There was no announcement from the Cuban government, which is often reluctant to give information about political arrests and trials.

Other anti-government activists were reported to have been detained by police over the weekend, apparently to stop them staging demonstrations during the trial.

Before their arrest on July 16 1997, the four dissidents held news conferences for foreign diplomats and journalists and released documents criticising the grip on power held by President Fidel Castro's ruling Cuban Communist party.

They also urged voters to boycott one-party elections and sent a letter to foreign businessmen warning them they could be contributing to the suffering of the Cuban people by investing in Cuba.

Four accused of inciting others to 'subvert the order of socialist state'

The outcome of the trial is likely to send an important signal regarding the Cuban government's attitude to democratic reform.

Acquittal or lenient sentences might suggest the authorities are willing to heed international calls for greater political freedoms, such as the plea made by Pope John Paul II when he visited Cuba in January last year.

Although more than 300 prisoners were freed after the Pope's visit, Mr Castro has so far turned a deaf ear to appeals for the release of

the four well known dissidents, and to calls for a wider democratic opening. If the court endorses the jail terms sought by the prosecution this could send a strong message that the authorities are not willing to tolerate political opposition of any kind.

The trial was scheduled just two weeks after the government passed tough anti-subversion legislation which established jail terms of up to 20 years for anyone judged to be "collaborating" with hostile US policy towards Cuba.

Cuba routinely alleges anti-government dissidents on the island are backed, directed and financed by the US government.

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ASIA-PACIFIC

ECONOMIC STIMULUS PREVIOUS ISSUE IDENTIFIED BY OFFICIALS AS MAIN ENGINE OF GROWTH

China eyes more infrastructure bonds

By James Kyngs in Beijing

China is considering issuing a second tranche of infrastructure bonds this year to stimulate the slowing economy.

A decision on whether to launch more bonds could be taken during the full session of the National People's Congress (NPC), or parliament, which starts on March 5, the official China Daily newspaper said yesterday. A decision could, however, be postponed until later in the year.

The infrastructure spending that has flowed from a RMB100bn (\$12.1bn) bond issue in August has been identified by officials as the main engine of economic growth last year.

Liu Hong, commissioner of the national bureau of statistics, said last week that 4.8 percentage points of China's official 7.8 per cent growth in gross domestic product last year came from a 14.1 per cent year-on-year increase in fixed-asset investment. Officials said

the increase in fixed-asset investment was driven to a significant extent by the infrastructure projects financed from the bond issue, and from state bank lending.

But many independent economists believe that the 7.8 per cent figure and the contribution of the fiscal stimulus package may have been significantly overstated.

First, RMB100bn seems too modest an amount - when compared with China's total

fixed-asset investments of RMB2,645.7bn last year - to have been the dynamo for almost half of the year's economic growth. Second, investment by the non-state sector last year was lacklustre.

Fixed-asset investment by collectively owned enterprises in the cities dropped 16 per cent year-on-year. Investment by rural collective, which includes most of China's so-called town and village enterprise sector, climbed 0.6 per cent and

total investment by the private sector rose 6.1 per cent. But regardless of the true impact that investment had on the economy last year, fiscally driven infrastructure spending remains one of the few policy options open to the Chinese government in combating the economic slowdown.

Xiang Huaicheng, finance minister, is expected to unveil an expansionary budget at the NPC next week. Officials have already forecast a deficit for 1999 of

RMB105.3bn, up from RMB95bn last year, but Mr Xiang has said the deficit could end up being larger than predicted.

China's room to issue more bonds is somewhat circumscribed by the fact that debt revenues in 1997 were 54 per cent of the government's fiscal income, a proportion which almost certainly climbed again last year. In addition, China's tax income as a percentage of GDP, at about 10 per cent last year, is seen as too low.

Role for UN sought in East Timor

By Peter Wise in Lisbon, Gwen Robinson in Sydney and Sander Thoenes in Jakarta

Portugal and Australia want a United Nations presence in East Timor to help ease tensions as the territory moves towards autonomy or full independence from Indonesia. But Australia says an armed peacekeeping force is not required.

The Portuguese and Australian foreign ministers, who met in Portugal on Saturday for talks on the future of the territory, urged opposing factions in the former Portuguese colony to show restraint and avert further bloodshed.

East Timor, off northern Australia, was invaded and annexed by Indonesia after the Portuguese colonial administration withdrew amid civil strife in 1975. Human rights organisations estimate that more than 200,000 East Timorese have died since the invasion.

Portugal has condemned Indonesia for arming pro-integration militias after agreeing to grant East Timor independence if the Timorese rejected an offer of autonomy. Two separatist activists and a soldier were killed in the latest incidents on Wednesday.

Jaime Gama, Portugal's foreign minister, said a UN presence was needed as early as possible to help stem the escalation of tension and oversee the transition to autonomy or independence.

This would include monitoring the decommissioning of weapons.

Alexander Downer, his Australian counterpart, said he envisaged the sending of civilian UN personnel to help in the process of consulting the East Timorese on their future, but "not a massive UN peacekeeping force, heavily armed, landing on the shores of East Timor".

Portuguese and Indonesian officials will meet in New York next week for a

further round of UN-sponsored talks on East Timor. Kofi Annan, UN secretary-general, is expected to make a decision on a UN presence in the territory.

Portugal and Australia, whose relations have been strained by the East Timor issue, achieved a broad consensus in the weekend talks on how best to support a peaceful transition in the territory, diplomats said.

This will include ensuring that the East Timorese benefit from offshore oil resources in the Timor Gap.

A 1989 treaty, unsuccessfully challenged by Portugal, splits the oil and gas field between East Timor and northern Australia into

Presence needed 'as early as possible to help stem rising tension'

three zones: Australian, Indonesian and joint co-operation.

Companies currently involved in Timor Gap projects include Broken Hill Proprietary, Royal Dutch/Shell and Woodside Petroleum.

Delegates from Irian Jaya who met B.J. Habibie, Indonesian president, on Friday made a surprise call for independence, rejecting an offer from Jakarta of expanded autonomy.

The president had invited the delegates in an effort to assure the resource-rich region that he shared their concerns, but they reacted to an offer of independence for East Timor to demand the same.

Diplomats say growing numbers in Aceh, the western-most part of Indonesia, have also switched from calling for autonomy to demanding independence.

Singapore opts for caution in fuelling growth

By Sheila McNulty in Kuala Lumpur

Singapore has opted for caution in its 1999-2000 budget, providing only mildly stimulative measures for the economy while focusing on improving long-term competitiveness.

"Even as we adopt short-term measures to deal with current difficulties, we have to keep our eyes on the future, develop the infrastructure necessary for our future growth, enhance our capabilities and put in place a conducive framework for businesses and individuals in Singapore to thrive," said Richard Hu, finance minister. "Only then will we be well placed when the region recovers from the economic crisis."

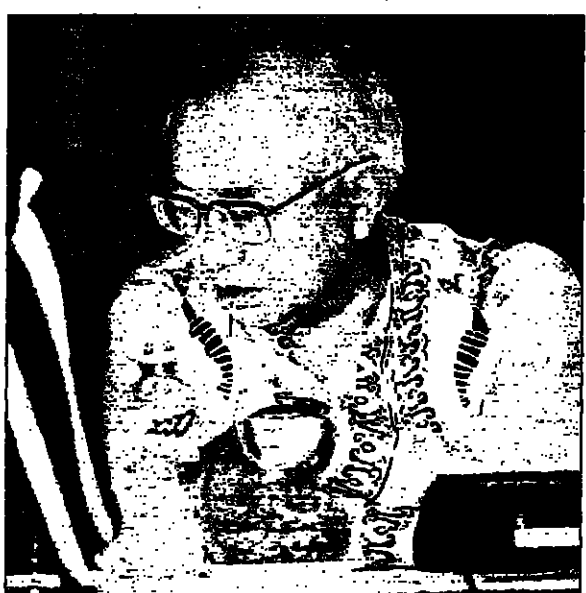
Economists have applauded the city-state's administration throughout Asia's crisis for not resting on its laurels because of the superior health of its own economy.

Singapore has urged its citizens to cut spending and upgrade their skills to enable it to emerge stronger from the crisis. The economy grew 1.5 per cent last year,

above the government's 1.3 per cent estimate, in what Neil Saker, SG Securities' head of economic research in Singapore, called "a commendable performance given a region in recession. Although growth decelerated through the year, versus 8 per cent in 1997, it was still much better than any distressed regional economy."

However, the government said overall trade shrank 7.5 per cent in 1998, visitor arrivals declined by 13 per cent, activities in the Asian dollar market contracted by 10 per cent and job losses reached a record 28,300.

Singapore warned that this year could also be difficult. But instead of providing a wide-ranging boost to business, the administration has decided to let measures announced last year work through the system. In June, the government implemented a \$2bn (US\$1.2bn) off-budget package of cost cuts and spending measures. And in November it implemented a \$810.5bn cost-reduction package, covering the main elements of business costs. The cornerstone was a 15 per cent reduction in overall wages.



Richard Hu: 'we have to keep our eyes on the future' AP

These measures will already help push the budget into deficit for the first time since the mid-1980s recession. It will be funded from surpluses accumulated by the government in its current term. As those efforts were designed to help business, the \$289.2bn 1999-2000 budget focused instead on relieving pressures on individuals and building up strategic industries.

There was a 10 per cent personal tax rebate, double that given last year and reliefs for those in public housing. Tax incentives were provided to various sectors, including the bond market and boutique fund management, as part of efforts to promote the city-state as a

regional financial centre. They were also extended to companies that use Singapore as an operational headquarters performing at least one substantive global function.

The largest allocations of the budget went, as in previous years, to defence, at 25 per cent of total government spending, and education, at 19 per cent. Spending on development will amount to \$13.9bn, up \$81.2bn from fiscal 1998 to invest in strategic projects such as land reclamation and information technology.

The government is forecasting gross domestic product of between minus 1 per cent and plus 1 per cent this year.

Islamabad to seek fresh bids for Habib Bank

By Farhan Bokhari in Islamabad and Clay Harris in London

Pakistan's privatisation commission plans to seek fresh offers for Habib Bank, the largest public sector bank, after a disappointing response from prospective investors last week.

The commission's chairman said separate offers for parts of Habib's international network would now be considered. The deadline for offers is March 15.

The new offers are being sought partly because of possible objections from the UK's Financial Services Authority. The FSA must give its consent since Habib is licensed to take deposits in the UK, where it has 16 branches.

Pakistani officials say the FSA could object to any one of the six prospective buyers, who have had no experience of running a worldwide banking network. Under UK law the FSA may accept the word of the home country supervisor in deciding whether a bank is "fit and proper". However, it has wide discretion in making its judgment on suitability.

The six expressions of interest include four Middle

Eastern groups (Bank Al-Falah, a Karachi/Abu Dhabi consortium, Al Yousaf group of Muscat and the International Investor of Kuwait). Daewoo Securities (an affiliate of the South Korean Daewoo Corporation) and a consortium of Habib Bank employees.

Although still undecided, the commission is apparently considering plans to privatise the overseas network in separate chunks, though still loosely tied to the core.

"We are asking the cabinet committee on privatisation to repeat the Habib Bank's expression of interest," Mr Khawaja Asif, chairman of the commission, said.

Mr Asif said there was merit in considering sales of foreign branches to financial groups in their countries of operation. "To give one example, Habib Bank last year showed a profit of \$12.5m (\$890,000) in the UAE, which is pathetic. A party from there can do much better."

Under this approach, the UK branches could be sold to a buyer acceptable to British authorities while networks elsewhere could be sold to other investors, Mr Asif said.

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ASIA-PACIFIC

DELHI BUDGET FEARS REMAIN OVER HEALTH OF GOVERNMENT FINANCES

Leap in fiscal deficit forces India to raise direct taxes

By Mark Nicholson in New Delhi

India has raised direct taxes for the first time in a decade after an unwelcome spurt in this year's fiscal deficit. The rises came in a weekend budget, flagged by Yashwant Sinha, the finance minister, as launching a "medium-term strategy" to restore "fiscal health".

Indian stocks surged on Saturday in response to market-friendly fiscal measures in the budget, and industrialists welcomed fiscal stimuli to buoy growth in sectors such as housing and agriculture. But many analysts remained unpersuaded that Mr Sinha had done enough to allay fears over government finances.

Revealing a leap in the fiscal deficit to 6.5 per cent of gross domestic product from the budgeted 5.6 per cent, and citing a "growing and critical source of concern" over rising spending, Mr Sinha characterised his budget as placing a "strong corrective course on revenues", at the same time rationalising most indirect taxes.

Analysts saw the budget as steering a difficult course under fiscal and political constraints - with his Bharatiya Janata party-led coalition government enjoying a slim majority - to rein in finances, offer some demand impetus to a limping economy and promote further economic reforms. "Given the constraints, it strikes a balance between giving a demand shock to the economy without further fiscal indiscipline, but perhaps at the cost of making further structural reforms, which could prove politically destabilising," said Vikram Goyal, India economist for Morgan Stanley in Hong Kong.

Mr Sinha raised both corporate and upper-tier personal taxes by 10 per cent, doing the same with excise and customs duties. He allowed to lapse additional surcharges worth 5 per cent on customs duties and reduced India's maximum tariff to 40 per cent but imposed a minimum 5 per cent tariff on duty-free items. The overall effect slightly increases average

protection and is seen as considerably buoying indirect tax revenues. But the budget was otherwise largely devoid of overtly nationalist, or economic nationalist, measures. Indeed, Mr Sinha promised further liberalisation for foreign investment approvals "in a few days".

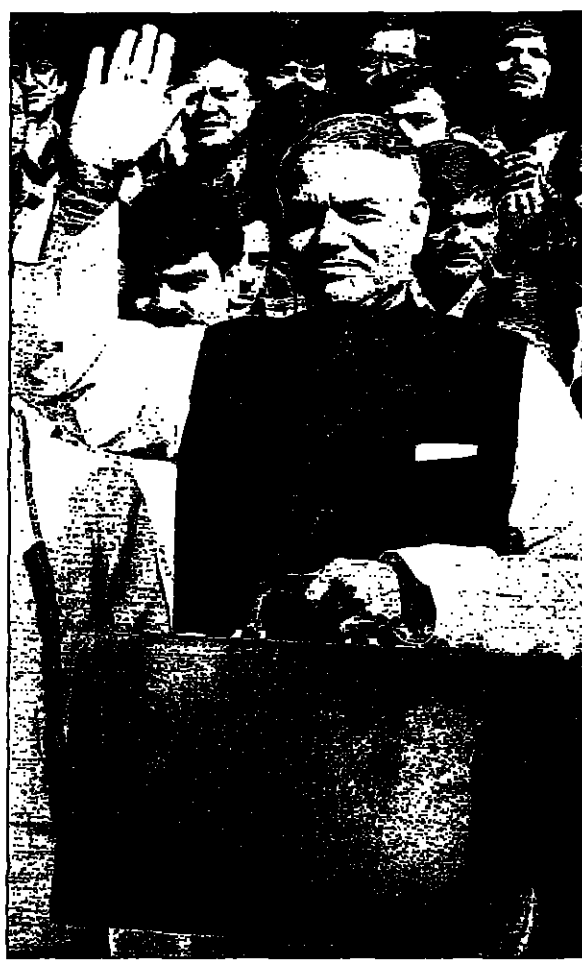
The reformist core of the budget, which made more promises of structural reforms than direct commitments, lay in a simplification of indirect tax bands, cutting to five bands from seven the rates of customs duty and to three from 11 the number of excise bands. Based on a currently optimistic growth forecast of between 6.5 per cent and 7 per cent for next year, against 5.8 per cent this year, and a 20 per cent surge in tax receipts, he promised to cut the fiscal deficit next year to 4 per cent of GDP.

However, several analysts pointed out that this sharp cut rests partly on ambitious revenue forecasts - including an expected record Rs100bn (\$23.5bn) from disin-

vestment - along with some juggling of figures.

Next year's deficit is calculated on the basis of a new series of GDP figures, which have on average raised national income figures by 9 per cent, thus trimming all ratios to GDP. Mr Sinha's deficit forecast also rests on removing "small savings" from the calculation - savings receipts which are lent to the states and form part of the government's consolidated spending. Commentators said that, on a like-for-like basis, including "small savings" and using the old series GDP figures, the deficit target next year would amount to 5.8 per cent of GDP, higher than this year's missed target.

The finance minister promised to address high government spending by starting to "downsize" the bureaucracy and appointing an expenditure reforms commission. But the only concrete step was the abolition of four senior bureaucratic posts, prompting scepticism over the government's likely ability to contain spending.



Sinha's budget largely devoid of nationalist measures

Reuters

NEWS DIGEST

MALAYSIAN CONTROVERSY

Former police chief admits he beat Anwar

Malaysia's former police chief has admitted beating Anwar Ibrahim, the sacked deputy prime minister. The admission by Abdul Rahim Noor, made through his lawyer, will embarrass Malaysians, though not necessarily surprise them. Mr Abdul Rahim resigned when the authorities admitted, after an extended inquiry, that police were responsible for bruises and injuries suffered by Mr Anwar during his detention. But no single officer was named. Mahathir Mohamad, the prime minister, who was also home minister at the time and in charge of the police, initially suggested the injuries could have been self-inflicted. Teh Poh Teik, Mr Abdul Rahim's lawyer, said that his client told him to admit to the assault and that he had "acted under grave provocation". Mr Anwar's treatment has put the spotlight on Malaysia and provoked a backlash against the administration of Dr Mahathir. Social activists said Malaysians would be watching closely to see how Mr Abdul Rahim is punished. Sheila McNulty, Kuala Lumpur

PHILIPPINE IMPASSE

Rebel talks plan founders

Plans for talks between Joseph Estrada, the Philippine president, and an Islamic rebel group broke down over the weekend. Mr Estrada had flown to the southern island of Mindanao for talks with leaders of the Moro Islamic Liberation Front (MILF) which has been fighting for the creation of an independent Islamic state for nearly 20 years. Army officials said plans for talks foundered because of disputes over the location for the meeting and the number of troops allowed to accompany the MILF leaders. At an army base in the southern town of Cotabato, Mr Estrada said any future talks would have to be conducted on government terms and would not include discussion of an independent state. Tony Tassell, Cotabato, Mindanao

THAILAND ECONOMY

Trade surplus narrows

Thailand's trade surplus narrowed in January, a sign that exports - a key component of the country's economy - may revive in the coming months. The trade surplus in January was \$316m compared with a surplus in December of \$1.23bn. Exports fell 4.8 per cent year-on-year compared with an 8.5 per cent decline a month earlier. Imports were also down 4.8 per cent year-on-year compared with a decline of 15.8 per cent in the previous month. Economists say the bottoming-out of the crucial import figure - this is the first single-digit decline in more than a year - portends well for exports later this year as Thailand's exportable goods traditionally have a high import content. The central bank forecasts 4 per cent growth in exports this year. Imports must pick up and the trade deficit must narrow for that target to be reached. Other figures released yesterday showed private investment, which in the past has accounted for about 30 per cent of gross domestic product, continues to collapse, falling 23.6 per cent in December compared with a 23.5 per cent decline in November. Commercial bank credit fell 13 per cent year-on-year in January compared with a decline of 9.6 per cent in December. Ted Bardacke, Bangkok

By Krishna Guha in Bombay

India's stock markets open today for the first full session of post-budget trading. They are likely to be in a buoyant mood following a 5 per cent rise in the BSE-30 index to 3,399 after the speech of Yashwant Sinha, the finance minister, on Saturday.

Local investors were pleased with a package of measures to boost India's capital markets and rescue the country's biggest mutual fund, the crisis-hit US-64 scheme. The government will buy back privatisation shares with a market value of about Rs 28bn (\$650m) from US-64 at their book value of Rs 48bn.

The bail-out will be routed through a new fund financed

by a special issue of government bonds. It will help bridge the gap between US-64's assets and liabilities, which touched \$1bn last year, and enable the guaranteed return fund to move over to a system of market-based pricing.

Mr Sinha also announced plans to cut long-term capital gains tax from 20 per cent to 10 per cent, and make dividends from equity mutual funds tax-free.

"I believe the mutual fund industry is poised for very rapid growth," said P.S. Subramanyam, chairman of state-owned Unit Trust of India, which manages the US-64 fund.

The market was further heartened by moves to facilitate corporate restructuring. Mergers and acquisitions

will be exempt from capital gains tax, while Mr Sinha promised a review of competition policy.

Industry, however, was less elated. Companies already under pressure from sluggish growth and low commodity prices will be hit by a 10 per cent surcharge on direct taxes. Personal tax rates for affluent middle class consumers and customs duties will also rise. "Clearly there is an implication for growth in profits and profitability," said Robert Gibson, managing director of Jardine Fleming India.

Corporate tax rises will be partly alleviated by the decision to restore 100 per cent Modvat credit, which enables companies to offset fully taxes on inputs against taxes on finished goods.

Analysts welcomed a change in tone from Mr Sinha's first budget last year. This time he focused on the need to promote India's sunrise industries - software, pharmaceuticals and media - rather than bail out heavy industries.

Last year's ill-fated attempt to kick-start the economy through higher government expenditure on infrastructure gave way to a more sober effort to curtail the fiscal deficit. Mr Sinha attempted to simplify the indirect tax regime.

"It is a lobby-proof budget," said R. Ravimohan, managing director of Crisil, the credit rating agency. Indian banks, which face a wave of bad debts, receive new tax concessions to encourage them to write off

non-performing assets. Bankers will be able to offset such provisions against tax, subject to an annual limit.

Housing lenders such as Housing Development Finance Corporation will profit from an increase in tax breaks for home loans, and moves to tighten foreclosure laws.

India's pharmaceutical industry could be helped by plans to review the country's restrictive pricing regime for drugs, and moves to support indigenous research and development.

Mr Sinha is encouraging foreign investment in pharmaceuticals by permitting 74 per cent foreign ownership.

India's booming software sector will be allowed to import hardware free of customs duty. There are new

benefits for export-oriented media companies.

The tobacco industry and the fast-moving consumer goods sector also gain from lower-than-expected rises in duties. The tax on packaged tea is to be abolished.

"The main news in the budget is what did not happen," said Sangeev Mohla, director of HSBC Securities.

"Successful industries were not punished with tax rises, there were no tax breaks for petrochemicals producers, and no moves to speed up liberalisation of the petroleum sector."

The vehicle manufacturing industry, already hit by the recession, suffered a fresh blow with the announcement of a new levy on diesel, the country's most popular fuel.

READING

The newspaper industry is committed to recycling. In 1997 waste paper accounted for over 40% of the fibre used to make UK newspapers.

BETWEEN

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Opposition grows to government's stance on euro

By Andrew Parker,
Political Correspondent

The government will today provide the first substantive evidence of its decision to speed up preparation for UK membership of the European single currency, as opposition to the euro intensifies.

Lord Owen, the former Labour foreign secretary, is this morning launching New Europe, a heavyweight anti-euro grouping that claims "Britain will be better off outside the single currency".

William Hague, leader of the opposition Conservative

party, yesterday announced he was forming a committee of academics and economists who will examine the possible advantages of retaining sterling.

However Stephen Byers, trade and industry secretary, will counter the anti-euro offensive by outlining how payments from a government fund to nurture businesses can be made in euros.

The announcement is the first manifestation of prime minister Tony Blair's symbolically important statement last week about changing up a gear in preparation

by the public and private sectors for the euro. The prime minister's official spokesman said it was inevitable pro and anti groups would form around the euro.

"As far as the government is concerned, we have got the right policy and will continue to promote it," he added, referring to the "prepare and decide" strategy.

The Department of Trade and Industry's planned enterprise fund will distribute £150m over three years to growing businesses. "This is part of moving up a gear," Mr Byers will tell Europe 21,

a pro-euro business group, today.

"I am looking into offering euro support under the enterprise fund. In fact, my general policy will be to offer a euro facility to enhance a scheme's effectiveness where there is sufficient demand," he will say, pointing out how grants for inward investments can already be paid in euros.

New Europe's advisory council includes Lord Healey, former Labour chancellor of the Exchequer, and Lord Prior, former Conservative employment minister.

Lord Owen said he would be prepared to share a platform with Conservative Eurosceptics in the planned referendum on the single currency. "What I worry about is the sort of fashionable view emerging that somehow you must join the euro," he said.

Lord Healey said he believed the euro-zone would collapse before Mr Blair called the referendum expected shortly after the next general election.

While not insisting that the UK should never join the euro, New Europe says in its

mission statement: "There are political dangers of instability and even insurrection from having a currency straitjacket imposed across the diverse 15 nations within the present EU, even more so for an enlarged EU... Viewed over the perspective of 30 or more years, single currency zones have either broken up in the past or chosen to coalesce into one larger nation."

The battle will be joined with the pro-euro lobby next month when the European Movement outlines a number of senior businesspeople,

politicians and trade unionists to argue for UK membership of the single currency. Kenneth Clarke, a former Conservative chancellor, and Lord Marshall, chairman of British Airways, may have prominent roles.

Meanwhile, Mr Hague was hit by fresh difficulties over his headline stance against the euro. Two former Conservative MEPs said they will run a list of pro-euro candidates in June's European parliament elections, which could damage the Conservative party's chances in the poll.

Proton to join trend for direct retailing of cars

By Haig Simonian,
Motor Industry Correspondent

Britain's reputation as the testing ground for innovative car retailing will be reinforced as Proton joins the growing band of manufacturers selling directly to customers.

The embattled Malaysian carmaker plans to sell vehicles directly to customers in the south Midlands, according to the latest issue of Motor Trader, the specialist trade publication.

The scheme covers large towns, including Leicester, Rugby and Warwick, where Proton has no dealers. It follows similar experiments by Daewoo of South Korea and Daihatsu, the Japanese mini-car specialist.

Such innovations by small or unfamiliar brands come against a background of bigger changes sweeping more established marques.

This year, Ford Motor joined forces with the Jarline group to bid for one of its biggest franchised UK dealers as part of a wider trend among carmakers to cut retailing and distribution costs.

Proton hopes direct selling will boost UK sales sharply. The company sold almost 15,000 vehicles in Britain in 1998. However, registrations fell to about half that last year as new management withdrew from low margin sales to daily rental companies.

Pressure on Proton to boost sales in the UK - its biggest export market - has grown because of collapsing demand in Malaysia. Domestic sales fell 55 per cent to 87,000 units last year from almost 197,000 in 1997 because of economic turmoil at home.

Instead of franchising independent dealers, Proton will use sales staff from a company-owned Coventry dealership to offer a doorstep service to prospective buyers in neighbouring areas.

KPMG backs accounting standards plan

By Jim Kelly,
Accountancy Correspondent

KPMG, the Big Five audit firm, has called on the UK to back Brussels' plan to impose international accounting standards on all listed companies within the European Union as a necessary first step towards global harmonisation.

"We are looking for global harmonisation and people must realise compromises will be inevitable," said Michael Hughes, a senior accounting partner at KPMG, which has championed the cause of UK entry into the euro-zone.

"We believe that the International Accounting Standards Committee is the appropriate platform - the UK cannot bury its head in the sand," said Mr Hughes. He said the firm backed EU harmonisation if it led to a global code. "If EU harmonisation brings the US to the table then it will be a price worth paying."

The firm's public backing for the IASC will be seen as one of the opening shots in what could be a heated debate in the UK about which standards should be used and which body should set them.

It is also a striking example of the Big Five firms staking out surprising positions on policy matters in an attempt to differentiate themselves and build a recognisable brand image.

The European Commission has advised EU finance ministers that its preferred option is for all listed companies to follow IASs. This would amount to a revolution in financial reporting in some countries - such as Germany.

In the UK the move would threaten the power of the UK Accounting Standards Board led by Sir David Tweedie. KPMG suggests UK companies would report under IASs but include a separate note of results compiled using UK rules.

Last week, the government's long-term review of company law began with a consultation document that asked for views on the issue.

But the Company Law Review Steering Group warned any move towards IASs might undermine the ASB's global leadership role, lead to a gap between listed companies and the rest of business, and reintroduce abuses into UK reporting.

UK learns from others on reform of care for the elderly

Commission to urge care outside of hospital be funded by the taxpayer, says Nicholas Timmins

In common with many other countries, the UK is seeking to reform the way the elderly are cared for in a society with an increasingly "greying" population.

A royal commission examining the future of care for the elderly in Britain looked at systems in several other countries before making its recommendations for the UK, to be published today.

It will propose that, in the UK, nursing and personal care for those outside hospital should become free and be funded through the tax system.

If the proposals are adopted, social care - home-delivered meals, cleaning and similar services, along with the "hotel" costs of accommodation in residential and nursing homes - would remain means-tested.

The commission's recommendations are expected to add more than £5bn (£8bn) to public spending in real terms over the next half century. But they would reduce the chances of people losing their homes to pay for care in their old age.

But a minority report by two of the 12 commissioners is expected to argue that such a policy would chiefly



benefit the better off and might not be sustainable.

This view has impressed the government, which is likely today to give the majority report only the most cautious welcome.

The commission looked at how Australia, Denmark, Germany, New Zealand, and the US care for their old people. The US has most experience in attempting to use private insurance to meet the needs of the elderly, both for care in their own homes and in residential and nursing homes.

However, only a minority of elderly people can afford good long-term care insurance. There are problems of moral hazard - where people insure when they believe they are very likely to claim - and of adverse selection - where companies attempt to

screen out those most likely to claim.

There is also a high lapse rate. Not counting those who die before needing long-term care, about half of those taking out a policy let it lapse within five years and 75 per cent within 15 years.

Attempts to use private insurance in partnership with the state, by using Medicaid to cover longer and more expensive spells of care, have also encountered problems.

The UK's commission agrees with a recent judgment that these partnership schemes have "failed the market test" with only 30,000 policies sold in four states with a combined elderly population of 7.2m. For the industry, long-term care insurance is "probably the riskiest product insurers can

sell". It therefore concludes that for future options "it seems prudent to conclude that public sources will continue to bear the larger portion of the risk of long-term care".

Germany has recently built up a new social insurance system, based on an extra 1.7 per cent payroll tax that would rise to 2.4 per cent by about 2040. Clients can take services direct, via a voucher, or a lower cash equivalent.

Early indications are that most people have opted for cash so that, initially, the service has proved less expensive than expected.

Japan and Luxembourg are considering social insurance models. But none of the countries with a tax-funded national health service such as Australia, New Zealand

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INSIDE TRACK

PROFILE FRANÇOIS ROUSSELY

Under the spotlight

The former civil servant is confident he can manage change at France's state-owned electricity group, write **David Owen** and **Robert Graham**

You have probably heard about "l'exception Française". But had you thought of managing it? This, it could be argued, is what François Rousseley, chairman of Electricité de France (EdF), spends most of his professional life doing.

In an increasingly homogenised business world, there are few areas where France's often cussed insistence on going its own way is more apparent than in the sphere of electricity.

While others have shied away from or slowed down development of nuclear power, France, without adequate reserves of fossil fuels, has single-mindedly developed a network of 58 nuclear plants that accounts for about three quarters of the country's electricity production. While others have broken their electricity industries up, France retains - in EdF - an integrated and monolithic state-owned supplier.

This French exception has not escaped the European Union's directive obliging member states to begin opening their electricity markets, which took effect on February 19. But France intends to limit liberalisation to the minimum threshold fixed by the directive (about 26 per cent of the market for 1999), and the bill

transposing the instrument into French law only recently started what may be a rather tortuous journey through parliament.

A glance through Mr Rousseley's CV seems to provide further evidence of France's determination to brook as few changes as possible in what is regarded as a highly strategic industry. A career civil servant, with spells

'I felt the challenge for the company was a managerial one... rightly or wrongly, I felt I could do that'

at SNCF, the state-owned rail company, as well as the national police and the interior and defence ministries, he hardly seems the type to send Europe's biggest power supplier into a brave new liberalised world bristling with aggression.

When France Telecom was in a similar position, the then centre-right government chose, in Michel Bon, a chairman whose career included a spell with

Carrefour, the hypermarket operator. Nor would proponents of rapid and sweeping change be reassured by the emphasis Mr Rousseley, a Socialist, repeatedly lays on the company's traditional public service ethic.

But after eight months in the job, the EdF chairman, 54, has shown a willingness to break the mould. He has reorganised the company and broken it into two poles, introducing the idea of a customer division. He has brought in an outsider - Lofe Capéran, formerly of Fiat and Renault - to head this new client pole. "He was world commercial and marketing director for a product in one of the most competitive sectors in the world - the car industry," he says, explaining the appointment. Mr Capéran's role will be almost as important as Mr Rousseley's own in determining whether or not EdF makes a success of the new market environment.

Asked whether he himself has the right experience to manage a company in the competitive sector, Mr Rousseley - who earned much respect for his role in helping to restructure the French defence industry in the first year of the Jospin government - responds with typical level-headedness. "If the boss of Enron had become head of EdF, he would certainly have a lot more

qualities than me for doing a certain number of things. And perhaps he would have been less well adapted to French social and political realities.

"I felt the challenge for the company was a managerial one, a challenge of organisation, of remobilising the staff and also of creating a calmer social climate. Rightly or wrongly, I felt I could do that."

It is also apparent that Mr Rousseley feels an affinity with EdF by virtue of the fact that his father worked for the company. When the chance came for him to become chairman after the departure of Edmond Alphandéry, following a protracted and damaging period of management in-fighting, this personal tie must have made it difficult for him to even consider refusing. It also helps to confer on him a legitimacy that might otherwise have been taken up in an organisation that has traditionally viewed outside management with suspicion.

He is clearly proud of having secured trade union agreement for a deal implementing a 35-hour work week, not just for its own sake - and because it will pave the way for the departure of 15,000 staff and the recruitment of 18,000 young people - but for the unifying effect he expects it to have. "If there had been no negotiations on working time, I would have found another pretext for concluding a deal with the five trade union organisations," he says. "Why? Because you cannot engage a company of 100,000 people in changes of this scale without a minimum of social agreement."

True to his origins in the rugby heartlands of south-western France, he uses a rugby analogy - based on the Haka chanted by the New Zealand All Blacks before the start of international matches - to elucidate further. "It is the cry with which they say they are going to beat their adversary. A social agreement in a company of this size is a way of saying... we have enough confidence in ourselves to go out and face the future. It is an act of

collective faith in our company." He is not afraid of competition and thinks much will have to change at EdF if it is to respond satisfactorily to even the limited competition it now faces. "We used to be an industrial company that produced electricity," he says. "Today, that is not enough: you have to sell it."

He advocates moving from the simple supply of kilowatt hours to broader contracts covering a range of related services. In spite of the company's extensive nuclear network, he sees a need for EdF to develop a position in gas, a fuel whose competitive position has improved markedly in recent years.

"I have always said we ought to get closer to Gaz de France so

as to have a multi-energy approach, like the rest of the world's electricity companies. That means being capable of having both nuclear- and gas-derived electricity in the services we offer. It means that we must at least make common offers with Gaz de France, rather than competing with each other. Without that we would be the only [large] electricity company in the world without a gas capability."

With part of the group's home market for the first time up for grabs, export markets, particularly Europe, have assumed even greater importance. "If we want to follow our clients, we must be European," he says. "None of our big clients is purely national. All are European, if not global. That

implies we must have a policy of being present in Europe."

His reign will be instructive, not least for the light it sheds on whether a graduate of France's elite Ecole Nationale d'Administration can step into the spotlight after 30 years behind the scenes at the heart of the French state and successfully manage an industrial company in the cut-throat modern business world. But succeed or fail, it is hard to imagine that his eventual successor as chairman of this unique national institution will not come from a more commercial background. Mr Rousseley may be among the last elite civil servants to make the once archetypically French career switch into industrial management.



Essential Guide to François Rousseley

Facts of life: born the Dordogne, January 9 1945 - a year before nationalisation of the electricity industry. Attended elite Ecole Nationale d'Administration 1976 to 1978. Moved through succession of senior government administration and public sector posts culminating in appointment as EdF chairman last July. He summarises his career thus: "I think what I have done - six years of defence restructuring, two years of defence industry restructuring, prior to that trying to modernise the police, or prior to that trying to modernise the local communities - all that is the same idea. That's how to modernise very broad state structures. 36,000 communes,

100,000 police officers... or 100,000 EdF agents. I'm not saying it's the same thing, but there are many common elements. In essence, what I have tried to do is make big public structures move and make them in some way more open." **Most difficult professional decision:** leaving SNCF after six months to return to defence ministry in wake of left's general election victory in June 1997. "I had a great time [at SNCF] because practically every week I'd spend two days in the field surrounded by rail employees explaining what modernisation and the opening up of Europe were. I like [spending time in the field] a lot."

Dramatically timed exit: defence executives tell how plan to merge Aerospatiale with Lagardère's defence interests was hatched over lunch on June 28. Rousseley said to have been informed the following day. Two days later was named EdF chairman. **Obscure reading matter:** The history of electricity deregulation in Sweden. "The big paper plants, at a given moment, left their historical producer, even though it was cheaper, simply to demonstrate first that they were not permanently tied, and second to try out a relationship with another electricity producer. They did it for three years and then came back saying it wasn't all that good after all."



LUCY KELLAWAY

The myth of the management crisis

Unrealistic expectations are fanning the belief that there is a shortage of people fit for top jobs

There is, we are told, a serious shortage of people fit to run the world's biggest companies. The CEO job market is painfully tight. According to John Quelch, head of the London Business School, there are not many executives who are up to the job. "There are so many challenges out there now which chief executives have to address... it is not easy finding the right people," he told Management Today.

I do not believe in this CEO crisis. Consider supply and demand. The number of top jobs is shrinking, as every mega-merger reduces the number of positions available. At the same time the pool of talent is surely getting larger. Think of all the people scrambling up the ladder in all those big companies.

Think of all the training, all the experience, all the striving. How can there be a famine at the top? I blame the "shortage" on our expectations. Because we ask the impossible from chief executives, it is not surprising that we can find so few people who fit the bill. If we expect the chief executive to deliver a stream of flawless rising earnings, to understand technology, to grasp every world market, to be a brilliant team player and visionary, to be a great communicator and motivator, then it is not surprising that we find the pool of possible candidates is small.

It is in the interests of headhunters to fan these expectations and make us believe that there is a perfect person for the job somewhere, and that if

they comb hard enough they will find him. They have encouraged us to believe that any organisation with problems needs an outsider to shake it up.

This is the pattern: the "perfect" candidate is found for a job. He is hyped, the company's share price rises and the honeymoon begins. Then the company runs into trouble, as it always will: the knee-jerk response is to get rid of the top person and the search for perfection begins again.

In fact, in all but the most feebly run companies, the good enough chief executive is right under their noses. As Professor John Hunt pointed out in the FT, it is hard to believe that among Barclays' 78,000 employees there was not someone good enough to run the place.

But the market does not see succession that way. Any company that dares to choose an inside candidate can expect a lukewarm response. Look at what happened to Cable and Wireless when it gave its top job to Graham Wallace. Safe but unexciting, was how our very own Lex column dismissed him. But who wants excitement? Surely in these risky corporate times excitement has little to recommend it. That someone is safe and knows something about the company strikes me as the best recommendation.

"Dear Paul", began the letter my colleague received the other day. "I understand that you are driving a range of operational

changes which we believe we can help you with."

As it happens, the only thing my colleague drives is a Mitsubishi. But even if he were driving a range of operational changes it is unlikely he would have been impressed by this pitch from a consultancy called Unipower Systems. "We expect to help the senior team release 15-20 per cent of the current portfolio of resources," the letter went on. What does that mean, I wonder? Fire one-fifth of the staff?

There is an awful lot of spurious "driving" going on in the world of management consultancy. Consider the title of a pamphlet sent out by Boston Consulting Group: "How Deconstruction Drives De-averaging." According to the covering letter, this



pamphlet is so important that senior executives "will question some of their most deeply held assumptions about their business". That is, if they can understand a word of it. "The de-averaging of competitive advantage can... undermine its traditional sources of advantage," the pamphlet says. I am going to have to take that one on trust.

At last: something sensible on the subject of knowledge management. Consultants KPMG have started warning clients of the dangers of drowning in the

stuff. What seems to have happened is that companies have got so excited about the dawning of the knowledge age that they are hoarding knowledge, and now have so much they can never find the stuff that they need.

According to KPMG, the main task of the chief knowledge officer (I still blanch at the title) is as much to chuck it out as to amass it. That sounds like an exciting job to me. There is nothing more satisfying than sweeping the entire contents of my desk into the bin. Perhaps I've found my métier.

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INSIDE TRACK

BUSINESS EDUCATION ENTREPRENEURSHIP

Combined force for innovation

Madrid's IE and 20 participating schools have acted on their own advice, says Della Bradshaw

Madrid's Instituto de Empresa (IE) prides itself on developing some of Spain's brightest entrepreneurs. No surprise, then, that it has adopted much of its own innovative thinking in its latest venture, the International Entrepreneurship Centre.

IE's structure is characterised by a handful of interdisciplinary centres set up during the past three years, in areas such as family business, technology development for small businesses and corporate governance. This one is special because IE is working with other business schools to develop a site where budding entrepreneurs can bring their ideas and potential investors can decide whether to fund them.

Although the site will be set up in Madrid, the 20 participating schools will run the centre on a co-operative basis, says Ignacio de la Vega, a former IE academic who has been lured back by the school from the private sector to head the centre.

He believes there is real potential for a site which logs international projects - he envisages students from schools in Europe, the US

and Latin America working internationally on their ideas - which require less than \$1m of funding.

Mr de la Vega has already contacted 40 international business schools which specialise in entrepreneurship about joining the project. For the schools, membership will be free, and Mr de la Vega expects 15 schools to have signed up for the centre by the summer.

Fees for potential investors, who will gain electronic access to the site, will be set between \$7,000 and \$10,000. Mr de la Vega is expecting venture capital companies and business angels to take up the scheme.

The bulk of the finance for the project will come from a technology and a banking sponsor. So far, two companies have agreed to be joint technology sponsors: IBM and Airtel, the Spanish mobile phone company.

Mr de la Vega believes the centre will be a bonus for students from the participating schools, where MBAs are frequently required to develop a business plan. At IE, for example, the business plan forms part of the core course and is introduced within the first few weeks.

MBAs at IE develop 150 business plans a year as a result, Mr de la Vega believes 30 or 40 of those would have the international content that would make them eligible for posting on the site. That number could



be multiplied by the number of participating schools.

The centre will change the kind of projects developed in business schools, believes Manuel Bermejo, director of the MBA programme at IE and director of entrepreneurship there. "The projects will be closer to market. The centre is a chance to open the minds of students and faculty members."

IE stands out from many larger business schools in the US or Europe, in that its students are particularly entrepreneurially minded. About one third of MBAs at the school already come from family businesses and in a recent survey 55 per cent were adamant that they wanted to be their own bosses. A further 43 per cent of the students said they

would probably become entrepreneurs.

All students at participating schools will have access to the website and will be able to work with their peers to develop the projects internationally.

Once the centre is established, alumni from the schools will also be able access the projects and eventually Mr de la Vega envis-

ages that online courses in entrepreneurship will be run on the site with participants talking to an online tutor in entrepreneurship.

Mr de la Vega believes it will take only a year for the project to demonstrate its worth. "In one year, we'll have the key to its success: we will have enough good projects available for our investors."



NEWS FROM CAMPUS

Stock answer to faculty appraisals

Staff appraisal has taken a new twist at the Katz School of Business at the University of Pittsburgh. The dean of the school, Frederick Winter, is giving "stock options" to faculty and staff based on the school's performance.

The dean will track the value of the "stock" based on issues such as Katz's place in business school rankings, the quality of incoming students and the starting salaries of new MBA graduates.

The "stocks" issued can be cashed in by Katz employees and, while the stock is phantom, the cash is very real.

To help entrepreneurs grow their businesses, rather than merging or selling them, the Katz school has set up a centre offering courses and mentoring to companies with a turnover of between \$23m (\$14m) and \$40m.

The Entrepreneurial Fellows Centre will run a 10-month programme that includes a presentation by Katz faculty and business leaders, participation in a peer advisory group, access to a private web site and mentoring by seasoned entrepreneurs.

Katz: US, 412 648 1500

Strategy the IT way

The MIT Sloan school of management, and less in Barcelona will be holding a one-week residential course, Strategic Management in the Information Age, in Barcelona from May 30.

Participants will learn how IT can be used to make more effective business decisions in areas such as strategic management and the redesigning of business processes.

The course will use interactive learning methods, including simulations.

MIT has also become the latest business school to agree a student exchange programme with IESE. Other US schools with which IESE has an agreement include Kellogg, Wharton, Chicago, Michigan and Columbia. IESE: www.iese.es

New options for arts graduates

Because respectable business schools require would-be MBAs to have management experience, university students with a degree in the arts and sciences have traditionally had few options if they then want to go straight on to convert to a course in management.

In the UK, Lancaster University has redressed the problem with a masters degree in management which is due to begin in October and will be open to new graduates from any discipline.

The first intake of students will be limited to 25 but the class is projected to grow to 50 within two years.

Lancaster: www.lancs.ac.uk/users/manschool

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southbank Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950

Iowa renames business school

The University of Iowa has renamed its business school the Henry B Tippie College of Business in recognition of \$30m donated by Mr Tippie over a number of years. He made his first donation of \$10m in 1957.

Mr Tippie, a 1949 graduate of the University of Iowa College of Commerce and now 72 years old, holds directorships with a large number of industrial and service companies.

University of Iowa: www.biz.uiowa.edu

MA in Chinese management

Increasing opportunities for trade with China has spurred Middlesex University Business School in London to develop a masters degree in Chinese management.

The new MA will equip students with an understanding of China and Chinese business practices by the school's China Management Centre. Middlesex University Business School: UK, 181 362 5000

Lecture from CBI head

The director of the UK's CBI, Adair Turner, will deliver the Association of MBAs' annual McCormick lecture at London Business School on March 15. The lecture, Competitiveness, Growth and Employment, Europe's Prospects in a Global Economy, will cover issues such as the impact of the euro, the problems of high unemployment in Europe and the impact of globalisation on the European economy.

The Association of MBAs has again teamed up with Hobsons Publishing to provide an MBA scholarship, this time for a student beginning a programme in 1999. The first winner of the scholarship was Elaine Soames, now studying at Insead in Fontainebleau.

Association of MBAs: www.mba.org.uk

Harvard and LBS win case test

Harvard and London Business School were the joint winners of the 1998 Arthur D. Little International MBA Case Competition, held at IESE in Barcelona. The competition is the only one in Europe that brings together North American and European business schools.

Other schools in the competition were Columbia, Kellogg and Michigan from the US, the Ivey School from Canada and the Rotterdam School of Management from the Netherlands.

The subject of the case study was the Spanish bank A.B. Assesores. The students were judged on three criteria: a memo to the managing director, a presentation to the judges and their responses to questions.

Harvard: www.hbs.edu LBS: www.lbs.ac.uk

BUSINESS EDUCATION INTERNET

L-plates for IT students

The OU course is a groundbreaker, says Stephen McGookin

The Open University this week launched its first course to be taught entirely via the internet.

The university has long used computer networks and bulletin boards to bring together far-flung students across a range of subjects.

The new course, "You, Your Computer and the Net", or number T171, relies entirely on online tuition, with no personal contact or residential schools.

All 2,000 students who have signed up will be taught by means of a dedicated web site. They will use support materials on CD-Rom as well as specially written OU booklets.

Participants will have e-mail access to an individual tutor and will work in online teams for joint assignments, as is common with existing OU courses that rely on "supported distance learning".

The course is also groundbreaking in that it is aimed at students who have little or no technical knowledge of the internet and in that there are no academic pre-

requisites for taking it.

John Naughton, senior lecturer in systems at the OU, says demand for the course has been overwhelming. Staff were staggered by the speed at which the quota had been filled.

Five hundred students were admitted to the initial test presentation.

Naughton, whose book *A Brief History of the Future - Origins and Destiny of the Internet* will be published this summer, believes the course will equip new students with the skills needed for further study.

The course will carry 30 credit points, in three 10-point modules running the gamut of instruction from basic PC operating principles to publishing web pages and organising online conferencing. It will lead to an existing course - "Computing: an Object-Oriented Approach".

The OU says the new course is aimed at those "who feel apprehensive about the apparently inexorable march of the new communications technologies".

Which sounds like it could be pretty well all of us.

Details at <http://t171.open.ac.uk/pres> while the OU inquiry line is 01908 653231

INTERVIEW CAROLYN WOO OF THE UNIVERSITY OF NOTRE DAME

Something out of the ordinary

George Bickerstaffe on ambitious plans to get the university's MBA programme towards the top of the rankings

When the College of Business at the University of Notre Dame in Illinois in the US appointed a new dean in 1997 it came up with an unusual choice: Carolyn Woo, a specialist in strategy, entrepreneurship and technology, born in Hong Kong.

"I am very different to the typical Notre Dame profile," says Prof Woo. "I am not an alumnus; I'm not a man and I'm not a Caucasian." But Notre Dame needed something out of the ordinary (and in fact it courted Prof Woo assiduously during most of the 1990s).

Although the college's undergraduate and postgraduate accounting programmes are highly rated, its MBA programme languishes in the lower reaches of business school rankings. The aim is to get the programme within the top 25 within five years.

"Notre Dame's MBA programme is about 30 years old but up to now has not had a culture of strongly promoting and marketing itself," says Prof Woo. "It's a sort of a gracious mentality that education is not for promotion. But the market place has changed in the past 10 years. Until about two years ago we didn't have a formal placement office for the

MBA, again stemming from the notion that education is to prepare your mind, not to prepare for a job."

Prof Woo has adopted a five-point plan to achieve her goal, starting with improving the marketing of the programme and, crucially, increasing the size of the programme and the quality of students admitted.

The 1998 incoming class has 120 students in the main two-year programme (up from 90 in 1997) and there are plans to expand it to 130 in two sections.

The college has a significant war chest in the form of fellowships (scholarships at the postgraduate level) to attract the brightest and the

best. Last year it handed out about \$1.1m fellowship money.

Currently about 30 per cent of MBA students are international, mainly from Asia, Latin America and Europe. "We try to keep it about that level, though we could go higher if we wanted," says Prof Woo. "But about 15 per cent are also minorities, so 45 per cent of our students are non-US mainstream."

Prof Woo is also boosting the curriculum, particularly the provision of new elective courses in areas such as entrepreneurship, organisational consulting, accounting and finance.

"The third area," says Prof Woo, "is placement. We are building a new placement centre to be ready by this summer. What we are trying to improve is the number of offers per student and the salaries per student."

"The next is our day-to-day operations. We're really tightening that process to make sure we render excellent services and we do it in a way that is efficient. So there is a lot of process re-engineering that has been done."

The fifth area is culture. Like the university, the college has a strong sense of the Catholic religion and a

commitment to the teaching and practice of business ethics. Prof Woo, herself a Catholic, comments: "One reason I came to Notre Dame was because I wanted to be part of an MBA programme that had a very strong sense of values and a strong sense of stewardship in addition to being very rigorous."

"I am concerned that we are training young people and preparing them to succeed beyond their wildest imagining. It is not unusual that three years or even one year after graduation students start making \$100,000-\$150,000, carrying wonderful titles and wonderful responsibilities. But I don't want to prepare people who are casual and dismissive about decision making. I don't want them to be arrogant."

The teaching of ethics is a tradition at Notre Dame. There are four professors whose main area of research and teaching is ethics and about 15 others who do secondary work in this area. "But," says Prof Woo, "it's about more than ethics, or ethics as a course. It's more a sense of who we are, what are our values, and what are the roots from which we go into the world to do this work. There's nothing wrong with an MBA or a business career or business success but it's about whether you can handle the seductions that come with it."



Carolyn Woo: unusual choice

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INSIDE TRACK

SCIENCE SPACE RESEARCH

You too can discover your own asteroid

Leonard David reports on a fresh breed of cosmic explorer already snapping at the heels of the professional astronomer



Lurking in the solar system's outback beyond Pluto, in an area known as the Kuiper Belt, is an asteroid some 180km in diameter. It would be only another faraway object, were it not for the unusual way it was discovered.

No world-famous astronomers were involved. Instead, the asteroid was found by a group of US high school students searching through telescope images on the California-based Lawrence Berkeley Lab's computer database.

The students are an example of a new breed of space explorer that is in the making. No longer are cosmic findings the sole preserve of professional scientists. Enter the web browsing space explorer - the Internet.

Thanks to the power of the Internet, and easy access to the latest scientific information, students, hobbyists and dabblers of all sorts can

make their own space discoveries, from locating a never-before-seen asteroid or finding the most distant quasar, to spotting dust devils - mini-tornadoes that pick up and move dust - on Mars.

It is a trend with which professional scientists are having to come to terms, but most realise that the amateurs can be used as a resource from which science will benefit. That is because, in the past, there have simply not been enough eyes available to inspect all the useful images that astronomers collect.

The student search of computer images was part of the US National Science Foundation's Hands-On Universe programme. Using special software and visual inspection, students trawled through images taken from the foundation's four-metre Blanco Telescope in Chile to make the asteroid discovery.

"These students had the opportunity to operate like

real astronomers," says Joseph Stewart, NSF program director.

Dr Stewart believes that public access to technology, coupled with the exciting science that can be pursued using that technology, is fostering a new breed of space explorer.

Students and dabblers of all sorts can make their own space discoveries

tering the promise of yet more non-professional scientific discoveries. "We are just seeing the tip of the iceberg," he says.

But how will scientists view increasing numbers of Internet interlopers on their intellectual turf? Surely the prospects of a high school student or a retired welder upsetting an astronomer's 35-year pursuit of, say, gravity waves, would be a little unnerving. "I think it's going to take some getting used to, but in some respects it has already been happening," Dr Stewart says.

For instance, amateur astronomers have found numbers of comets in recent decades, and the professionals welcome the extra help. "There are some scientist groups, however, that aren't used to doing that, and I think they will learn to get used to it in a hurry," says Dr Stewart.

The National Aeronautics and Space Administration (Nasa), meanwhile, is considering other ways to increase public participation in space missions. Funds have been earmarked to establish early next century what would effectively be a high-capacity Earth-Mars Internet connection. "This would be a communications link so capable that people sitting in their home could access information coming down from Mars...allowing for tremendous public participation, as well as enhancing the science return," says Carl Pilcher, Nasa science director for solar system exploration.

Experience suggests there will be plenty of amateurs ready to tune in. In the first month after Nasa's Mars Pathfinder mission had landed on the red planet in July 1997, and dispatched its Sojourner rover, nearly 556m "bits" were recorded at Internet sites set up to give a worldwide audience a close-up view of work in progress.

One of those most eager to tap into Mars Pathfinder data was Stephen Metzger, a

doctoral student of the University of Nevada at Reno. He had originally been involved in a proposal to search for dust devils on Mars.

"Nasa didn't think highly enough of our idea to fund us," says Jim Carr, co-writer of the proposal and a professor of geological sciences at the university. Undaunted, Mr Metzger downloaded a couple of hundred Mars images from a Pathfinder public Internet site into his modestly-powered home computer, equipped with 1980s software.

By converting the images and using various colour modes, Mr Metzger found what he was looking for - and what Pathfinder scientists had missed. There on his computer screen was a plume of swirling dust blowing across the Martian terrain. "I just sort of quietly stared at it for a few seconds. Then I pointed to the screen and said: 'You know, that's the way they are supposed to look,'" Mr Metzger recalls.

Further study of Pathfinder images has shown numbers of dust devils around the landing site. The whirlwinds are now viewed as a possible means by which dust is lifted into the Martian atmosphere, and they are probably connected with the planet's dust cycles.

As they were outsiders to the exclusive club of Nasa-funded space scientists, Dr Carr's and Mr Metzger's dust devil revelation was all the more impressive. "Having ready access to data through the Internet is marvellous. It leads to more open exchange of ideas and will keep everyone on their toes. Everybody that has got the capability and the interest can be a player, instead of just an elite few," Dr Carr says.

Daniel Barstow, director of the Center for Earth and Space Science Education in Cambridge, Massachusetts, points out that it is not in space exploration alone that amateurs may help. The earth itself is under intensive scrutiny as dozens of satellites churn out huge amounts of environmental data. "There's going to be a flood of information. Scientists will be completely overwhelmed with the tremendous overload of data."

The future is not hard to see: ever more powerful home computers that create live video streams of three-dimensional and virtual reality imagery, smarter software packages that can rapidly compare and contrast disparate caches of data found on the Internet, and an increasing public hunger to be involved.

For the new interlopers, "downloading discovery" will be only a mouse click away.

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INSIDE TRACK

BUSINESS TRAVEL INCENTIVE SCHEMES

Less mileage in cheaper tickets

As cost-conscious companies cut expenses it pays points junkies to shop around, writes Gillian Upton

Mileage junkies - business travellers who go out of their way to earn points from incentive travel schemes - are finding their lifestyle under threat.

Cost-conscious companies are cutting back on full-fare business class airline tickets in favour of promotional tickets or "consolidated" business class tickets.

The big drawback for the traveller is that these cheaper tickets come with restrictions including, in some cases, no mileage points.

Being made to fly in economy class can be just as bad: reward levels are much lower than in business class, and many airlines restrict incentive points to full-fare tickets. "The policy of awarding miles in economy has now become extremely important and particularly for those airlines which award miles on all fares," says Ian Dockravy, director of the Aviation and Travel Consultancy in the UK.

Rules vary and, as any mileage junkie knows, it pays to shop around. Abuse of company travel rules - for example, by booking with a non-approved airline - is a familiar trick.

Travellers can collect British Airways Air Miles only if they fly on a full-fare economy class ticket. But Lufthansa and SAS allow travellers to earn Miles & More and EuroBonus points, respectively, on all special fares, such as Apex, Pex and Super Pex. No airline allows earning benefits on consolidated fares.

Frequent flyer club membership goes beyond credits towards

free flights. Access to airport lounges, the possibility of being upgraded to a better seat, and being given priority on over-booked flights are among the benefits for the most valued members of incentive schemes.

"Once you move to the upper tier you get into service-related benefits and the prestige that goes with them," says Tony Clarke, global business development director of ICLP, one of the leading loyalty companies specialising in travel. "That's when travellers take extra trips to retain their platinum and gold cards, particularly when renewal time comes around."

The mileage junkie is most common in North America where the average frequent flyer belongs to 4.9 incentive programmes. According to industry estimates, the desire to boost mileage is a factor in more than a quarter of all trips.

The growth of incentive schemes since the early 1980s has also spawned an illegal trade in unused points - up to half of all those issued.

In Europe, membership of frequent flyer programmes is much lower, reflecting their spread geographically rather than any lack of interest. British flyers are learning the ropes fast, however.

'Travellers come up with all sorts of excuses so they can fly on their favoured carrier. Some are really good at it'

and belong to 3.7 programmes on average.

"Air miles are an emotive issue. Like company cars, it's a very personal thing," says Amanda Pennell, operations director of Amersham Travel, a



UK travel management company. "There is uproar when a traveller is downgraded. Travellers come up with all sorts of excuses so they can fly on their favoured carrier. Some are really good at it."

Abuse tends to be more wide-

Gary Hance of Seaforths Travel. "Travel has either been cancelled or it's now on the cheapest consolidated fare with little flexibility and no mileage benefits."

Frequent flyers should not despair, however. Several airline alliances will offer increased opportunity for "earning and burning" as they plan to merge their incentive programmes, despite hints from Brussels that such a move would be anti-competitive.

Star Alliance is leading the way. A top level member of United Airlines' Mileage Plus programme (the 100,000 mile flyer) will be recognised on any partner airline (Thai, Lufthansa, Air Canada, Varig and SAS - plus Air New Zealand, Ansett and ANA from later this year).

The benefits to airlines of these

schemes are well documented. Although the original idea was to fill empty seats, today they deliver customer loyalty, instant rewards when things go wrong and a significant revenue stream.

"They're all about yield management and relationship marketing," says Mr Clarke of ICLP. "The information gained on travellers' purchasing habits allows the airline to build customer profiles. They can then deliver the right message to the right person at the right time."

British Airways, KLM, Lufthansa and SAS all have sophisticated relationship marketing departments. BA, for example, was able to identify and mail those customers flying only one-way across the Atlantic, offering them an incentive to buy a return.



TRAVEL UPDATE

First non-gaming hotel in Las Vegas has quick net link

Las Vegas's first non-gaming hotel, the Four Seasons, opens tomorrow. Each room has been equipped with high-speed internet/data access. Rooms also have two-line digital phones and fax machines. Laptops can be rented.

Air check-in by car

Virgin Atlantic opens a drive-through check-in at Johannesburg's Jan Smuts International airport this summer. Travellers flying in Upper Class (business class) will be chauffeur-driven to the airport and complete all check-in formalities in their car.

Business discounts

SRS World Hotels has introduced preferential corporate hotel rates for companies booking between 1,000 and 20,000 rooms a year. Discounts vary between 5 per cent to 35 per cent in the Volume Corporate Rate Programme.

Heathrow in touch

London's Heathrow airport is installing 50 interactive touchscreen stations. The stations, known as WAMworlds, will offer information about the airport terminals and online information on anything from share prices and weather conditions to sports results. They will also give access to the web and e-mail. WAMworlds will also be installed in Gatwick and Stansted airports.

Belgian bargains

Sabena has cut fares from 11 UK airports to 30 destinations in continental Europe, as long as you fly before March 28. The deals, in economy class, are £155 from four London airports (Heathrow, Gatwick, Stansted and London City) and £175 from the seven regional airports

served by the Belgian carrier. The points include Paris, Milan, Hamburg, Stuttgart, Düsseldorf, Berlin and Gothenburg.

Frankfurt service

Ryanair is launching a twice-daily service between London's Stansted airport and Frankfurt on April 22. Flights will depart from London at 7am and 7.10pm and leave Frankfurt at 9.45am and 9.55pm. The fare is £89 return.

Roman Delta

Delta has won US government approval to launch daily non-stop flights between Atlanta and Rome, writes Roger Bray. The airline plans to start flying the route on June 1. This summer it will also start operating from Atlanta to Athens, Barcelona and Istanbul. Continental Airlines has secured the take off and landing times it needs at London Gatwick to launch a daily service from Cleveland. Flights will start on June 15.

Pricey Paris

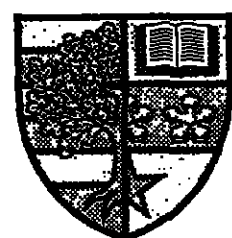
The recent meteoric rise in European business class air fares has tailed off - but try telling that to an Austrian with frequent business commitments in Paris. Analysis by American Express shows that between the final quarter of 1997 and the equivalent period last year the average price for a business cabin or full economy seat between Vienna and the French capital rose by 35 per cent.

Hilton kiosks

Hilton is installing automated business kiosks at 50 hotels in the US. Supplied by Business Anywhere, they provide touch screen, multilingual facilities around the clock. Other features include a computer with zip drive and e-mail and internet access, and a high-volume printer.

Gillian Upton

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Intl Bank for Reconstruction
& Devt 10% Bds 1999 £100
Do 11.4% Nts 2001 £111.25
Ireland 9% Capital 2006
IRE4.50
Italy 9.4% Nts 1999 \$982.50
Lombard Finance 6% Bds
2004 £30
Low & Bonar 5.4% 3rd Prf
1.925p
Do 6% 1st Cum Prf 2.1p
Do 6% 2nd Cum Prf 2.1p
Lucas Inds 6.4% 1st Prf
2.275p
Metro Water 3% 1934/2003
£1.50
Monks Inv 6.4% Deb 2023
£3.1875
Network Tech 0.55p
NFC 3p
Oldham Metro 11.4% Red
2010 £5.625
P & O 3.1% Deb £1.75
Do 3.4% 2nd Deb £1.75
Royal Bank of Scot 10.4%
Bds 2013 £1.050
Sage 2.12p
Sainsbury (J) 8% Irred Unsd
Ln £4
Sanctuary Housing Assoc
6.4% Deb £4.1875
Slough Ests 8.4p Conv Prf
4.125p
Smith (WH) Prf 1.49929p
Swiss Bank Nts 2004
Lira 600,000
Transcanada Pipelines
16.1% 1st Bds 2007 8.25p

TOMORROW
Abbey National Fdg 5.8%
Dual Currency 2000
Y2416.66
Britannia BS 10.4% Bds

2000 £1,050
Fleming Income & Cap Inv
Income 1.5p
Do Units 1.5p
Kuala Lumpur Kepong Bhd
M\$0.19
Kunick 0.5p
Royal Bank of Scotland
6.4% Bds 2004 £86.25
Technoplast Inds NIS0.70

WEDNESDAY MARCH 3
Bangkok Bank Public
4.589% Bds 2004 \$45.89

UK COMPANIES

TODAY
COMPANY MEETINGS:
Hawthorn, Copthorne Hotel,
Cardiff, 10.00
BOARD MEETINGS:
Network Tech 0.55p
NFC 3p
Oldham Metro 11.4% Red
2010 £5.625
P & O 3.1% Deb £1.75
Do 3.4% 2nd Deb £1.75
Royal Bank of Scot 10.4%
Bds 2013 £1.050
Sage 2.12p
Sainsbury (J) 8% Irred Unsd
Ln £4
Sanctuary Housing Assoc
6.4% Deb £4.1875
Slough Ests 8.4p Conv Prf
4.125p
Smith (WH) Prf 1.49929p
Swiss Bank Nts 2004
Lira 600,000
Transcanada Pipelines
16.1% 1st Bds 2007 8.25p

TOMORROW
COMPANY MEETINGS:
Fitness First, Broadwalk
House, 5, Appold Street, EC2.

Boeing \$0.14
Conversion 9% 2000 £4.50
Grainger Trust 6.35p
Mazda Motor 6.4% Bds
1999 Y640,000
Do 6.4% Bds 2000
Y640,000
Raglan Ests 10.4%-11.4%
Stpdd Deb 2012 £5.625

THURSDAY MARCH 4
Abbey National Treasury
TEC: 10 FRN 2006 FF76.25
Crown Leisure 0.25p

Guaranteed Export Finance
9.4% Bds 2006 32.25
Liverpool FRN 1999 £17.96
New Zealand Inv 4.75p
Sony 6.4% Nts 2006
\$30.625
Sweden 6.4% Nts 2003

FRIDAY MARCH 5
Abbey National Treasury
6.4% Nts 2004 £85
Aberforth Smaller Cos 4.55p
Capital Shopping Centres
6.4% Bds 2013 £34.375

Eskmuir Props 4.4p
Jupiter Extra Inc 1.96875p
Kingfisher Leisure 1p
Martin Currie Moorgate Inv
1.85p
Metrolife 4.4p
UNO 0.4p
Zetters 4p

SATURDAY MARCH 6
Bank of Greece 10.4% Ln
2010
Leopold (J) 9.4% Ln 1997/
2002 £4.625

Financial Times Surveys

FT
Director

Friday March 19
Friday June 25
Friday October 1
Friday December 10

For further information,
please contact:

William MacLeod in London
Tel: +44 171 873 3699
Fax: +44 171 873 4296
email: william.macleod@FT.com

FINANCIAL TIMES
No FT, no comment.

CONFERENCES, VENUES AND COURSES

CONFERENCES

MARCH 3 & 4
FT New Media Conference
In the aftermath of the launch of digital
television in the UK, the Financial Times
New Media conference will examine the
state of play in the digital market.
Distinguished speakers include: Mr Ian
West, Sky Entertainment; Mr Tony Blakey,
Telewest Communications; Mr Adam
Singer, Flextech; Mr David Docherty,
BBC; and Mr Stephen Grahame, OnDigital.
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Fax: +44 (0)171 873 3067
Email: catherine.macsweeney@FT.com
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March 10
FOOD STANDARDS AGENCY:
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Chaired by Jeff Rasker MP,
Minister of State at MAFF.
The Industry Forum is holding a
symposium on 10th March at the
Queen Elizabeth II Conference
Centre (10.00am registration -
12.45pm buffet lunch) to review the
Government's draft bill on the Food
Standards Agency.
Speakers will include: British
Hospitality Association; British Retail
Confectionery; Local Government
Associations; National Consumer
Council; National Farmers Union;
Nestlé; Tesco and Whitbread
Restaurants.
For further information on
registration/enquiries
please contact Marie Jouliax:
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Fax: 0171 437 3861
email: marie.jouliax@dtal.pipex.com

MARCH 11
FT UK Stakeholder Pensions
Conference
Speakers include: The Rt Hon Frank
Field, MP, Mr Chris Paine, Department
of Social Security; Mr Caroline Inance,
Occupational Pensions and Regulatory
Authority; Mr Andrew Young,
Government Actuarial Department; Mr
Richard Smith, The Pensions Trust; Mr
Nick Papp, Human Resources Director,
CBI; and Mr Robert Nutall, BBC.
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Tel: +44 (0)171 873 3263
Fax: +44 (0)171 873 3067
E-mail: julie.crossan@FT.com
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MARCH 18 & 19
FT European Pensions
Conference
Distinguished speakers include:
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European Commission; Mr Kees van
Rees, Managing Director Shell Pensions
Fund, Chairman, European Federation
of Retirement Provisions; Mr Martin
Jack, Director of IBM Retirement
Funds; EMEA, IBM UK Ltd; Mr Bruce
Garnett, Head of Pensions, BP Amoco
p.l.c.; and Mr Ruth Goldman, Head of
Pensions, Lindores & Alliance.
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April 1999
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Banking; Mr Eli Harvati, Teva
Pharmaceutical Industries Ltd;
Mr Gilles Pajot, IMS HEALTH
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Department Manager, Metals
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Milling-Stanley, Manager, Gold Market
Analysis, World Gold Council; Mr Ted
Reeve, Gold Analyst, Equity Research,
Scottish Capital Markets; Mr Neil Hewitt,
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THE ARTS

OPENINGS

HELSINKI

A comprehensive survey of Thomas Adès's music is the highlight of Helsinki's week-long contemporary music festival, starting at Finlandia Hall on Friday. The Sibelius Academy will stage *Powder Her Face*, and Adès himself will give a piano recital.

STOCKHOLM

The Moderna Museet is presenting the first full-scale retrospective in Scandinavia of Aleksandr Rodchenko (right), one of the leaders of the post-revolutionary avant-garde in Russia. The show opens on Saturday and runs until May.

PARIS

The Musée d'Orsay has organised a "Saison anglaise"



embracing art, music, photography and film from across the English Channel. An exhibition devoted to Burne-Jones and the English Pre-Raphaelite movement opens

today, and the first of 10 concerts featuring British ensembles and recitalists takes place on Thursday. A Hitchcock season follows in late May.

NEW YORK

The opening weekend of New York City Opera's Spring season at Lincoln Center is Jack Beeson's *Lizzie Borden*, based on the true-life story of a New England woman who was accused of hacking her father and stepmother to death with an axe. Premiered in 1965, the opera was revived at Glimmerglass three years ago. City Opera is restaging that production with Phyllis Panchella in the title role. The first night is on Saturday. More than 170 of Picasso's ceramic works (right), created in the south of France between

1947 and 1962, will be on view at the Metropolitan Museum from Wednesday until early June. Seen last year at London's Royal Academy, this is the first major show to concentrate exclusively on Picasso's ceramics.

Irving Berlin's 1947 musical *Annie Get Your Gun* has been updated by Peter Stone for this revival directed by Graciela Daniele and starring Bernadette Peters. It opens at Broadway's Marquis Theatre on Thursday.

LONDON

On Saturday and Sunday, the South Bank Centre celebrates the 250th anniversary of the birth of Goethe with recitals, lectures and master-classes. At Sadler's Wells Theatre, Kim Brandstrup's excellent *Arc Dance* Company is joined by Irek Mukhamedov in a brand new version of the Don Juan legend. Should not be missed. New score, new design, a new role for the magnificent

Mukhamedov (for whom Brandstrup has already made a fine Othello). Danish composer Kim Helweg provides an original score.

The National Gallery has organised the first-ever exhibition of the work of 17th-century Italian painter Orazio Gentileschi. It includes several of his monumental Old Testament masterpieces, as well as examples of his work as court painter to Charles I in London. The show opens on Wednesday, and will move to Bilbao in June and Madrid in September.

Thelma Holt's new production of *Macbeth* arrives in London after a short season in Bath. Directed by John Crowley, the play stars Rufus Sewell and Sally Dexter (right). It opens at the Queen's Theatre on Wednesday.



Man in the hot seat: James Ferman and the controversial film 'Crash', which caused a UK tabloid outcry in 1997 when it was passed by censors

A good advert for a bad practice

Nigel Andrews praises former UK film censor James Ferman for reducing nannyism to a minimum in 24 years of making cuts

The Princess Anne Theatre at the British Academy of Film and Television Arts was agog. We were there for "An evening with James Ferman" in which the recently retired British film censor would tell all - with clips.

We knew what we expected to see: blood pouring down the screen, the psyches of Michael *Death Wish* Winner and *Texas Chainsaw* Hooper exposed vividly to view, and a stream of naked people doing naughty things in footage still bearing the scissor-marks of a Soho Square office.

What we got was both more and less. Mr Ferman proved an affable host, dark-suited at a lectern where he briefly lamented the lack of a piano (what else goes with "An evening with...")

Then he dived into *Jaws*, his baptismal furor, before navigating us through a decade-by-decade account of outstanding rumpuses, from *Emmanuelle* to *Cliffhanger*, from the video nasties to *AI No Corrida*, Oshima's famous sex-with-art shocker.

Oddly the decades ran out, or seemed to, before the 1980s. So we had nothing on Cronenberg and Stone, nothing on *Child's Play 2* (the supposed trigger-video in the Jamie Bulger murder case), and nothing on *Renny: Portrait Of A Serial Killer*. There was also nothing on *Crash*, the certification of which created tabloid hysteria in

1997. As for that granddaddy pariah, *The Exorcist*, one would love to have heard Mr Ferman's reasons for a video ban lasting 25 years, though a reprieve is now in sight.

But we must not carp. Censors fessing up at all are a rare phenomenon: half a loaf, even a plate of crumbs, is better than nothing. And one cannot imagine a spokesman more resourcefully defending and illustrating a practice that many of us doubt should be practised at all.

Why should adults have their minds censored? Why should parents' failure to police children's viewing result in restrictions for all? Why should one man or committee be deemed incorruptible when the rest of us apparently need round-the-clock vigilance?

Mr Ferman's feat over 24 years has been to reduce nannyism to a minimum. The proportion of censor-cut films, he was proud to boast, has fallen from 40 per cent to about 4. And with problem films, classification upwards has replaced scissorswork, so that an iffy 15 becomes an 18 or an R rather than becoming a butchered mess.

He has also, unlike some censors, been willing to consult the yellow pages under E for experts. With *Jaws*, he pulled in a child psychiatrist and said: "Won't it give children nightmares?"

The shrink said: "What makes you think that nightmares are bad

for children? Nightmares are bad for parents. For children they are nature's way of working out problems and tensions." Mr Ferman summoned two more child psychiatrists who said the same. So, essentially, did Bruno Bettelheim in his great book on fairy tales, a Ferman bible.

Hallelujah, say I. Not the least bane of recent times has been the

Any censor lasting a generation has to deal with hysteria that is 90 per cent of public protest

censorship lobby proclaiming the

Children are the creatures, remember, that bully fellow creatures in ways more arbitrary than any adult - do none of us recall our own childhoods? - and whose fascination with naughty things done to and by the human body begins at least five years before puberty. Yet we still treat children as fragile creatures.

Any censor who lasts a generation has to deal with the institutionalised hysteria that is 90 per cent of public protest over films.

So Mr Ferman patiently explained why *The Life Of Brian* was, literally and legally, not blasphemous: why he had tried not to be excessive in cutting *Robin Hood*, *Prince Of Thieves* (hand-licking scene) and *Cliffhanger* (hero's crony used as football).

He told us why *Jurassic Park* and *The Lost World* could be passed for children (teachers and psychiatrists both pointed out that children know dinosaurs are unreal); why video nasties were a brief, freak phenomenon representing a backlash against 70s feminism: why a scene in *AI No Corrida* in which the heroine playfully pulls on a small boy's penis was optically changed so that it was clear what she was doing without our actually seeing it (it's a vital piece, Mr Ferman argued, in her psycho-portrait); and why the sex in *Emmanuelle* was uncorrupting - how could it not be with all that soft focus and consensuality? - save for one near-rape scene.

"Rape with a positive outcome" became Soho Square jargon for scenes of ravishment that are immediately followed by the heroine, say, happily riding a bike through spring countryside (see, and we did, *Emmanuelle In Tokyo*). If I believed in censorship at all, I too would draw the line at this, as at the sadomasochistic whipping scenes we saw from *L'Histoire d'O*, never passed for Britain, or the

sadistic (dis)grace-notes inserted by Michael Winner into a rape scene in *Death Wish 2*.

Pushed to the mast and told to nail my colours to it, however, I would have to say I believe in censorship in only two areas: national security (don't tell the enemy where our spies and ships are), and criminal acts during filmmaking (impound material and arrest makers if any movie commits an actual murder, rape or atrocity).

As for those vulnerable children, their viewing is not the business of a state or industry monitor, it is that of parents, guardians or schoolteachers. A detailed classification system should be encouraged, even more detailed in my view than the present one.

If that is considered insufficient, parents should lock up the video machine, embargo children's trips to the video store or lay down any other tough-love flat deemed appropriate.

What no grown-up should do is condone or connive at the appointment of a watchdog, singular or collective, to police the dreams and nightmares of a culture that should remain vital, responsive and empowered to imagine, and whose pride in those attributes is what differentiates a free world from a totalitarian one. That James Ferman is a good advertisement for a bad practice does not make the practice any better.

A dream of an evening

BALLET

CLEMENT CRISP

A Midsummer Night's Dream
Sadler's Wells

Pacific Northwest Ballet ended its Sadler's Wells season with the staging of Balanchine's *A Midsummer Night's Dream* that so endeared the company to us at last year's Edinburgh Festival. It is a marvellous ballet, and once again was excellently well done by the troupe.

What I love about it is Balanchine's clear feeling for Shakespeare - it is, in its sense of magic, more touching than the Ashton version, if one must make the comparison - and also Balanchine's unerring way with narrative. He tells the tale in the first act, and makes the second a danced celebration of love fulfilled. (In what seems one vertiginous minute in Act 1, the choreography compresses the loving identities of Oberon and Titania, Theseus and Hippolyta, and the crossed lovers, and brings on the rude mechanicals - no mean feat, especially when one is not left feeling breathless.)

It is allusive, too, in handling: we have but to see Helena cross the stage to sense her sorrows; and when the emotional knots unravel at the end of the first act, we have known the characters and understood them. It is a happy touch - and one that perhaps relates back to Balanchine's Petersburg inheritance - that, like Petipa in his version, there are child

performers as fairies and insects: the use of these children as fireflies in the last ecstatic moments of the piece is one of the most felicitous touches in a ballet uniformly felicitous in sentiment as in step.

This *Dream* is, as I reported from Edinburgh, an abiding joy, and it is joyously danced. Most of the casting is as we saw last summer. Patricia Barker, with her big, luscious style, is a wonderful Titania - I love the way she can hold a pose in the air, sustain its dynamic, show its continuing life. The lovers - Julia Tobisson and Lisa Apple, Ross Yearseley and Jeffrey Stanton - are by turns ardent and angry, and delightful. Seth Belliston I found even more mercurial as Puck, airy in jump as in wit, and in the yielding pas de deux of the second act, Louise Nadeau, with her pretty feet and her musical, fluent style, is a worthy inheritor of a role made for the exquisite Violette Verdy, who was music incarnate.

All in all, the staging is a triumph for the company, and it is imaginatively set and amusingly dressed (roses all the way!). Pacific Northwest's opening programme suggested that the troupe shopped for design at a branch of GUM in Seattle - *le style commissar* was everywhere apparent - but the *Dream* has a real charm to it in Martin Pakledinaz' decorations. The Mendelssohn score was admirably played by an unnamed orchestra under Stewart Kershaw.



A wonderful Titania: Patricia Barker

Tanara

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 49-30-34384-01
Tel: 31-20-551 8911
Die Zauberflöte, by Mozart.
Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 5

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny, by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pitz and Isabel Ines Glathar; Mar 4

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
John Ruskin: exhibition exploring the influence of the Victorian

artist and theorist. Includes drawings, watercolours and photographs; to Mar 7

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Magic Fountain, by Delius.
Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Mar 4, 6

LONDON

DANCE
Sadler's Wells
Tel: 44-171-663 8000
Arc Dance Company: The Return of Don Juan, in a new staging by Kim Brandstrup, starring Irek Mukhamedov. With an original score by Kim Helweg; Mar 1, 2, 3

OPERA

English National Opera, London Coliseum
Tel: 44-171-632 8300
Parsifal, by Wagner. Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futterer. Cast includes Kim Begley and Jonathan Summers; Mar 3, 6

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by R. Strauss

and Couperin; Mar 4, 5
● Beethoven Academie: conducted by Christopher Hogwood in works by Mozart and Haydn, with piano soloist Stefan Vlas; Mar 3
● Sinfonia Varsovia: conducted by Yehudi Menuhin in works by Mendelssohn-Bartholdy and J. Brahms; Mar 2

DANCE
Philharmonie Gasteig
Tel: 49-89-5481 8181
Bolshoi Ballet: mixed programme of Russian works; Mar 1

NEW YORK

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Picasso: Painter and Sculptor in Clay. Seen last year at London's Royal Academy, this show brings together 175 ceramic works by Picasso, mostly created between 1947 and 1962; from Mar 3 to Jun 6

OPERA
New York City Opera, New York State Theatre
Tel: 1-212-870 5570
www.nycoopera.com
● Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Panchella in the title role; Mar 6

● Madame Butterfly: by Puccini. Conducted by Guido Johannes Rumsdatt in a staging by Mark Lamos first seen in November, with sets by Michael Yeargan

and costumes by Constance Hoffman; Mar 7

PARIS

EXHIBITIONS
Musée d'Orsay
Tel: 33-1-4049 4814
www.musee-orsay.fr
● Edward Burne-Jones: major retrospective of the British pre-Raphaelite painter, which forms the mainstay of the museum's 'saison anglaise'; from Mar 4 to Jun 6
● Gothic Revival: Architecture and Decorative Arts of Victorian England. Display examining the fascination of mid-19th century artists with medieval society, with particular emphasis on the nascent Arts and Crafts movement; from Mar 2 to Jun 6

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4479 1300
www.opera-de-paris.fr
Macbeth: by Verdi. Conducted by Gary Bertini in a staging by Phyllida Lloyd, with designs by Anthony Ward. Cast includes Jean-Philippe Lafont and Maria Guleghina; Mar 2, 5

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
www.opera-de-paris.fr
La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christine Goerke;

Mar 1, 4, 7

POTSDAM

EXHIBITION
Cinema Museum
Loni Riefenstahl: first major German exhibition of the film maker since the war. Includes films produced during the Nazi period and more recent photographic work; to Feb 28

ROME

EXHIBITION
Palazzo delle Esposizioni
Tel: 39-06-474 5903
Poussin: Early Years in Rome. Display of 41 works produced between 1624 and 1628. The centrepiece is 'The Sacking of the temple in Jerusalem by Titus' (1925/6), commissioned by the Barberini family. Includes major public and private loans from Europe and the US; to Mar 1

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenawald/Ashley Putnam; Mar 3, 5, 6

TAMPERE

EXHIBITION
Sara Hildén Art Museum
Tel: 3583-214 3134
www.tampere.fi/hilden

Tony Cragg: 33 sculptures and a large number of drawings by the British-born artist, now working in Germany. The works on display are from the period 1988-1998; to May 9

THE HAGUE

EXHIBITION
Gemeentemuseum
Tel: 31-70-3388 1111
Silver from the time of the United East India Company: display of silver manufactured in the 17th and 18th centuries in former Batavia. Works from the collection are supplemented with important private loans; to Mar 21

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Orchestre National du Capitole de Toulouse: conducted by Michel Plasson in works by Debussy, Ravel and Berlioz; Mar 4

VIENNA

EXHIBITIONS
Austrian Museum of Applied Arts
James Turrell: retrospective of the American artist who incorporates the elements into his architectural designs. Including two site-specific installations, the show also features photographs and drawings of the extinct volcano in which Turrell has been working since the 1970s; to Mar 21

KunstHausWien
Tel: 43-1-712 0495
Jean-Michel Basquiat: Paintings and Works on Paper. 100 works on loan from the Mugar Collection; to May 2

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-257 6765
Chagall, Kandinsky, Malevich and the Russian Avant-garde: includes important loans from the State Hermitage Museum in St. Petersburg and provincial Russian museums; to Apr 25

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● **Business/Market Reports:**
05.07; 06.07; 07.07; 08.20; 09.20; 10.20; 11.20; 11.32; 12.20; 13.20; 14.20.

At 08.20 Tanya Beckett of FTTV reports live from LUFFE as the London market opens.

COMMENT & ANALYSIS

FT INTERVIEW LEE TENG-HUI

The unrepentant leader

Taiwan's president is in tough talking mood, say Peter Montagnon and Mure Dickie

Lee Teng-hui comes across as an eminently reasonable man. The smile is natural and continuous, not forced and clenched as many photographs suggest. His manner is mild and relaxed, as befits the man who brought democracy to Taiwan and is now the country's president.

The snag is that his words are anything but reasonable to those to whom they are most clearly directed - his arch rivals in mainland China who have been alternately bullying and cajoling Taiwan to accept speedy unification with a long-separated motherland.

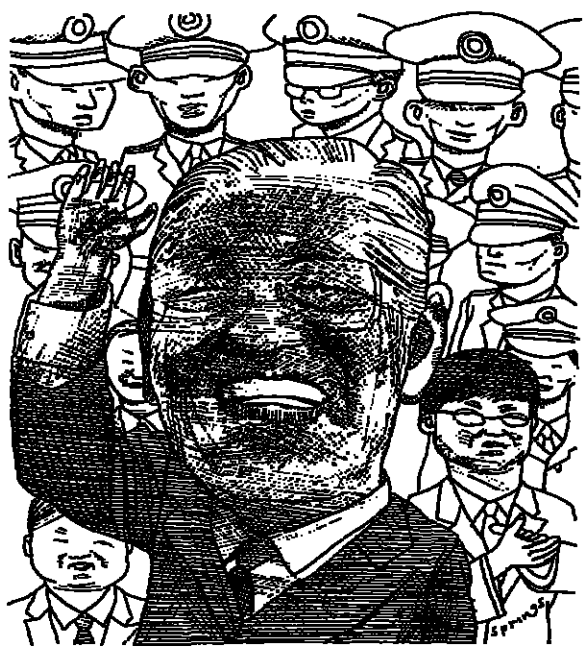
In an interview laced with banter in English and Japanese about sport and his granddaughter's schooling in the UK, an unrepentant Mr Lee avoided the ultimate provocation in the form of a formal declaration of Taiwan's independence. But he described Taiwan as an independent and separate entity of government, expressed support for Taiwanese participation in the planned US theatre missile defence system (TMD), which has recently so enraged Beijing, and insisted that Taiwan could teach China a thing or two about democracy.

Far from injecting a note of calm, these latest utterances - coming just as the US released a report warning of a Chinese missile build-up against Taiwan - will add to already mounting tensions. They may provoke an even greater sense of despair in Beijing over the chances of engineering a peaceful resolution to their sovereignty dispute.

In turn, they will be viewed with consternation by those who worry that an outbreak of hostilities across the Taiwan Strait could become a threat to global peace.

Mr Lee, 76, a native-born Taiwanese brought up in the Japanese colonial period, is an instinctive politician with a popular touch.

Many analysts believe he has deftly caught the shifting political mood. Taiwan's establishment is no



longer dominated by mainlanders who fled post-revolutionary China and have always dreamed of returning, while a young and affluent broader public identifies less and less with communist China.

The Kuomintang party, which Mr Lee leads, still espouses the ideal of eventual unification and he maintains that nothing has happened to undermine this possibility. But Taiwan has developed its own unique sense of culture. Unification must only occur when the conditions in China are appropriate and on terms that respect Taiwan's dignity. In the meantime, he says, "you must consider Taiwan is an independent and sovereign area, and a political entity".

That is essentially where his unyielding argument begins and ends. His aides would prefer him to speak not of Taiwan and say he always means to use the island's less provocative official name, the Republic of China. But, perhaps deliberately or perhaps because he is too relaxed in a foreign language, he repeatedly uses the term, Taiwan, that smacks outrageously to Beijing of

tacit support for independence.

While Taiwan is keen to talk to the mainland about practical issues like fishing rights and investment, Mr Lee lays little emphasis on the prospect of substantial political dialogue at present. The next round of talks in Taipei will simply give Wang Daokun, Beijing's negotiator, a chance to see for himself what Taiwan has achieved. "He's invited. He will learn about Taiwan. He will get to understand what is democracy, what is freedom."

As for TMD, the concept of a US-led regional defence system against missile attacks is officially only an option that is under consideration, but Mr Lee is unmoved by worries that it could be a financially costly investment that might also provoke China into taking military action against Taiwan.

Instead he is taken with the idea as a means of forcing China into scaling back its weapons and entering talks on Taiwan's terms. "Maybe they might have to throw away their missiles," he chortles.

Equally he remains unrepentant about his

controversial visit to the US in 1996. It was not, as many believe, the US decision to grant him a visa that caused a lengthy deterioration in Sino-US relations but a power struggle within China, which was then preparing to adapt to the post Deng Xiaoping era. If the situation arose, he would go on such a visit again.

This is the kind of approach he would like to see continue after his present term ends next year. He will not stand in the presidential election next March but wants his successor to stand for continuity.

After the election, the presidential Mr Lee says he wants to devote his time to something useful like mission work among Taiwan's aboriginal population. But he will retain his position as party chairman for two further years, giving him an important influence over politics if the KMT candidate wins. From that position he will doubtless continue to campaign for his own concept of what Taiwan is and what it stands for.

Despite the emphasis laid frequently in Taiwan on the status quo, it is a concept that has developed considerably during Mr Lee's time in office. In the parliamentary elections last December he began to speak of the new Taiwanese, a citizen with a uniquely local culture who has cast aside the old ethnic divisions between native-born and recent immigrants.

This concept is not inconsistent with the principle that Taiwanese are ethnically and culturally Chinese, Mr Lee believes, but it is a backhanded form of reassurance. Taiwan, he says, is developing a new style of Chinese culture, which, after eventual unification, will become a model for the whole country in terms of politics, education and justice.

Behind the red walls of the Zhongshan leadership compound in Beijing, President Jiang is scarcely going to appreciate that

LETTERS TO THE EDITOR

Environmentalists and GM debate

From Mr Charles Secrett.
Sir, Your leading article "The perversion of science" (February 20-21) on the genetically modified food debate suggests that "organisations such as Friends of the Earth... have too often been contemptuous of facts and dishonest in their use of scientific findings". You provide no evidence whatsoever to support this claim.

Our role in the GM food controversy has mainly been to publicise environmental concerns about GM crops. These include the danger of cross-pollination producing

environmentally damaging mutations, the likelihood that pesticide and weedkiller resistant crops may encourage use of more, or more powerful, sprays - damaging to biodiversity - and the risks of allowing large multinational companies to gain further control over our food chain by patents on key genes and restrictive contracts with farmers.

For each of these arguments we have provided extensive evidence, which can be found on our internet web site by anyone with sufficient energy to

conduct some research. If your newspaper wishes to lecture other parts of the media about their attitude to science, it would strengthen your case if your own attitude to facts were a little less cavalier, and if your editorial writers had sufficient journalistic integrity to check their more damaging assertions before they appear in print.

Charles Secrett,
director,
Friends of the Earth,
26-28 Underwood Street,
London N1, UK

Wrong about US recessions

From Dr Wynne Godley.
Sir, Arun Hargobind (Letters, February 24) is wrong when he asserts that "recessions (in the US) are kept shallow by stimulating the tradable sector with a weaker dollar".

During the 1974-75 recession there was a short-lived depreciation of the dollar; but the temporary improvement in the trade balance was so small that it did little to alleviate the recession. During the 1981-82 recession the dollar strengthened spectacularly and there was a deterioration in the trade balance that accentuated the recession. During the 1990-91 recession there was a small depreciation of the dollar but the improvement in the trade balance was not nearly large enough to mitigate the recession significantly.

Mr Hargobind's reference to the (small) fall in the dollar between April 1991 and August 1992 is very obscure, particularly as the trade deficit increased from \$12bn in the second quarter of 1991 to \$36bn in the third quarter of 1992. This was a period when the dollar was fluctuating about a flatish trend and the numbers are greatly affected by small differences in the periods chosen for comparison - for instance, between the first quarter of 1991 and the fourth quarter of 1992 the (trade weighted) dollar rose nearly 5 per cent.

Mr Hargobind completely ignores the fact that the large and growing excess of private expenditure over income in the US has no precedent and he does not address my argument that this unique excess carries unusual dangers.

Wynne Godley,
The Jerome Levy Economics
Institute of Bard College,
Blimhollow,
Annandale-on-Hudson,
New York 12554-5000, US

Allergy to scientific facts is catching

From Mr Michael Kenward.
Sir, Gerald Dorey ("Monstrous miscalculation over environmentalism", Letters, February 25) is spot on in his assessment of the role of the environmentalists in fuelling the media's feeding frenzy over genetically manipulated foods. But he spoils his argument by a blanket assertion of "the inability of the media to forgo a nice horror story".

This saga has been as much as anything an excellent case study in how the press reports science. With the exception of the ever

daft tabloids and the congenitally green publications printed with vegetarian ink, much of the coverage was actually balanced and informed. Several correspondents even went so far as to explain how science works, and that Dr Arpad Pusztai's techniques of information dissemination fell at the first hurdle. Publication by press conference has never carried much weight.

Having defended my colleague in science writing, I can understand why the political and general report-

ers made a bit of a dog's dinner of the story, but I am puzzled by the alacrity with which several environmental correspondents unthinkingly bought the greenwash, often reaching very different conclusions from their science-writing colleagues. Perhaps they have spent too much time with environmentalists and have caught their allergy to scientific facts.

Michael Kenward,
Grange Cottage,
Staplefield,
West Sussex, RH17 6EL, UK

Huge task of destroying landmine stockpiles

From Mr Ian Mansfield.

Sir, The destruction of 2m anti-personnel landmines by the British Army is encouraging news (your report, February 23). The UK is sending a clear signal to other countries about the importance of destroying stockpiles of landmines, as required by the Ottawa Convention. The landmine treaty, signed by 133 countries and ratified by 85, comes into force today. It requires countries that have ratified to destroy their stockpiles of landmines by March 2003, and to ensure

the destruction of deployed landmines within 10 years.

The destruction of stockpiles is an extremely important step, and in some cases an enormous task. Ukraine, for example, is estimated to have 10m mines in its stockpile, and has approached Canada for assistance in destroying them. However, the concern among humanitarian and relief agencies is that the already limited funding for existing mine clearance-related projects should not be diverted to pay for stockpile destruction, and that additional

resources must be forthcoming for this task.

Nor should the neutrality of existing civilian mine action programmes be compromised by requiring them to enter military bases. Separate bilateral arrangements must be developed between nations' militaries to undertake these "single event" stockpile destructions.

Ian Mansfield,
head of mine action team,
United Nations
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One United Nations Plaza,
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Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW ONNO DE BEAUFORT WIJNHOLDS

Maintaining an indispensable role

Rather than attempting to play a lender of last resort, a role for which it is not well equipped, the IMF should settle for a less ambitious approach to its lending policies

In the debate about "reforming the international financial architecture" (really a matter of renewing the wiring and plumbing, but changing the architecture sounds more important), there have been several calls for the International Monetary Fund to become a lender of last resort. These suggestions pose serious problems.

Rather than have the IMF play a role that it is not well equipped to take on and that carries a considerable risk of moral hazard, the Fund should settle for a less ambitious approach in its lending policies, while seeking to increase the involvement of the private sector in dealing with financial crises.

Using this approach, the IMF could continue to play an indispensable role in dealing with countries facing serious external imbalances. In fact, there is a need to strengthen the role of the Fund as the "indispensable lender", not by providing over larger credits but by making sure that other creditors take their fair share in the resolution of international financial upheavals.

The notion of a lender of last resort is best known in a domestic context, where central banks stand ready to provide liquidity to illiquid but solvent banks, usually against collateral and at a penalty rate.

Applying this concept to the IMF is inaccurate on two counts: the Fund is not a world central bank with unlimited money-creating powers; and it lends to countries, not to banks. These two facts mean the IMF cannot assume a lender-of-last-resort role only to a limited extent.

Its resources come from national governments which are clearly unwilling to provide it with the amount of money that such a role would entail. Also, the Fund cannot make a distinction between solvent and insolvent countries. Indeed, the

very concept of insolvency is not well suited to sovereign nations.

Even though the IMF cannot be a fully-fledged lender of last resort because of its funding constraint, attempts at playing such a role could be harmful, especially when announced in advance. The moral hazard this would create could be unacceptably high, and efforts to achieve an equitable burden-sharing in times of financial crises would be seriously undermined.

Granted, moral hazard problems would probably not be serious with respect

to an up-front guarantee that the IMF will bail out a country that in the past has conducted adequate policies. Under such a system, it would be hard to maintain the sort of conditionality required under existing Fund facilities, with their prior requirements and performance criteria.

Those who are sceptical about this argument should think about what would have happened if such a contingent credit line had been available to Indonesia or South Korea in 1997 or to Brazil in 1998.

A prior question lurks

The only way to reduce moral hazard drastically is for the IMF to refrain from attempts to become a lender of last resort

to the borrowing countries, as long as adequate conditionality is maintained. But they apply with full force on the creditor side. Banks and other financial institutions have the IMF very much in mind as a source of comfort when making decisions about whether to lend to risky countries, where higher yields can be obtained.

While suggestions have been made to reduce such moral hazard, they are not very convincing. The only way to reduce moral hazard drastically is for the IMF to refrain from attempts to become a lender of last resort.

In this light, the proposal to create a contingent credit line within the IMF is not helpful. The obvious danger is that the existence of such a contingent credit line on top of the already existing facilities of the IMF would provide even more comfort to private sector lenders. Moreover, it could well engender moral hazard on the borrower side, too. This is because a contingent credit line in effect consti-

tutes an up-front guarantee that the IMF will bail out a country that in the past has conducted adequate policies. Under such a system, it would be hard to maintain the sort of conditionality required under existing Fund facilities, with their prior requirements and performance criteria.

Experience so far suggests the answer is no. The Fund provides on average no more than 10 per cent of the financing requirements of the countries that turn to it for support (in special cases it has been considerably larger). Yet it is generally considered to be the pivot of the process.

This is the role of the IMF as the indispensable lender. The Fund is indispensable because its conditionality constitutes the best possible guarantee of timely repayment (most countries cannot provide adequate collateral). It also provides the best hope of a - possibly lasting - improvement in the borrowing countries' economic policies.

Other official lenders tend to link their money to a Fund programme: the Paris Club, the World Bank, the

European Union and official bilateral lenders. Also, private sector participants, particularly commercial banks, are more willing to lend to a country if an IMF programme is in place (although obviously this is a much looser link).

This process - often referred to as the catalytic role of the Fund - is only one element of its "indispensable lender" role. The IMF also co-ordinates the contributions of other official creditors - during a crisis.

Indeed, the Fund might well do more here, especially in involving the private sector. The missing link in dealing with international financial crises has often been the lack of mechanisms for involving private companies. In playing a more active and at times forceful role here, the IMF would strengthen its role as indispensable lender without resorting to the provision of even larger credits of its own.

All the same, the Fund needs to tread cautiously in this area. While it and creditor governments should take into account the concerns of the private sector in dealing with financial crises, it should be kept in mind that the Fund's Articles call for it to provide credits "to give confidence to members" - and not necessarily to members' creditors.

In sum, the IMF should not be pushed into the role of lender of last resort, a role that it cannot wholly fulfil and is also fraught with moral hazard. The Fund can and should continue to play a central role in addressing financial upheavals without providing the bulk of the financing needs of countries in crisis.

By linking its credits to sound economic programmes, and by involving other parties, including the private sector, the IMF will be the indispensable lender.

The author is an executive director of the IMF

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Monday March 1 1999

Hong Kong's rule of law

There always was a reason to worry about the independent rule of law in Hong Kong after the handover to Chinese rule.

The constitutional row between the former British colony and Beijing over a recent ruling by the territory's top court shows that those worries are justified. This will damage Hong Kong's standing as a business and financial centre. It is up to politicians on both sides to limit the injury for the sake of their own self-interest.

At stake is the credibility of the "one country two systems" deal under which the territory reverted to Beijing in 1997.

Making this work was never going to be easy. That was made all the more clear when Hong Kong's highest court, the Court of Final Appeal, was obliged by Beijing to clarify the most important constitutional judgment it has ever made.

A chastened court had to reaffirm that the territory's post-colonial constitution did not allow it to question the authority of the National People's Congress, the Chinese parliament.

The NPC's constitutional supremacy over Hong Kong is not the main worry. It is stipulated in Hong Kong's post-colonial constitution, the Basic Law. But the background to the row demonstrates insensitivity to the rule of law on the part of both governments.

The source of the dispute was a decision by the court that main-

land children had the right to live in the territory if one parent was a permanent resident - and even if they did not have a Chinese exit visa.

Hong Kong's judges maintained that they had the right to review acts of the NPC and declare them invalid in Hong Kong if they contravened the Basic Law.

The Beijing government saw this as an unacceptable threat to the NPC's supremacy. So it asked for parts of the ruling to be clarified. In response, the Hong Kong government took the unprecedented step of asking the court to review its decision: a challenge to the judicial autonomy on which any capitalist economy depends. It is no wonder local and foreign business interests are worried.

The risk is that this might be a forerunner of even more serious constitutional upsets, as the Chinese government struggles to come to terms with the rule of law in Hong Kong. If its courts run into trouble over immigration, the scope for more constitutional rows in the future is worrying.

Some comfort can be drawn from the fact that the substance of the court's decision remains intact. Even so, this is a reminder that it is in the interests of both governments to respect Hong Kong's rule of law. If they do not, confidence in both of China's systems will weaken.

Bad company

Sometimes the company you keep can seem as important as the cause you espouse. Opponents in Britain of Europe's single currency have long laboured under the handicap that for many of their number hostility to the euro is symptomatic of a visceral dislike of all things European.

In parts of the Conservative party especially the line between Euro-scepticism and Europhobia often seems perilously thin. A rational case for opting out of the single currency is not easily made by those who still see Germany as a nation conspiring for European domination.

Thus the latest convulsions in William Hague's party reflect the fact that euro supporters such as Kenneth Clarke and Michael Heseltine give every appearance of being moderates while never say opponents cast themselves as extremists. The launch today of a new cross-party campaign to "save sterling" is intended to address that weakness. The New Europe group believes Britain can continue to play an active role in European Union affairs while remaining outside the new monetary arrangements of the euro-zone.

The executive board includes a fair number of the great and good from across politics and business. It is impossible to cast Martin Taylor, the former chief executive of Barclays Bank (and long

before that a writer on this newspaper), in the stereotypical mould of paranoid Europhobe. The same can be said of lords Healey and Prior. In Lord Owen, the group has chosen as its chief spokesman someone with a record of pro-Europeanism - though one, it must also be said, whose political career often saw him as a champion of lost causes.

Less clear is the basis of their opposition to the euro. Lord Healey appears to rest his objections on the view that a "one-size-fits-all" monetary policy is economically unsustainable, while others fear that economic and monetary union must lead to a European superstate. A third concern seems to be the lack of political accountability.

Yet supporters of participation in the single currency (which include this newspaper) should welcome the fact that at least one grouping on the opposite side intends to frame the arguments in rational rather than emotional terms. When Britain votes in a referendum on the issue it must do so after an informed debate.

That said, New Europe faces a thankless task in seeking to persuade people that Britain can retain a powerful voice in European affairs outside its most important economic alliance. Nor does a common monetary policy ipso facto demand a single economic government. We look forward to the debate.

Quack medicine

Pat Buchanan, the maverick right-wing US politician, does not deal in ambiguity.

His planned appearance today in Wirgin, a depressed Virginia steel town, ahead of the launch tomorrow of his presidential campaign, signals unequivocally his intended electoral pitch. It is that imports are destroying American jobs, and that the US should fight back by raising trade barriers and shutting out the rest of the world.

That was Mr Buchanan's refrain in the last two presidential elections. It is no more likely this time to win him the White House. But he appears to believe it will prove popular enough for him at least to influence the debate and put his opponents on the spot. He might just be right.

Conventional wisdom holds that while the US economy remains strong, protectionism will stay muted. The one exception is the steel industry, hard hit by cheap imports. President Bill Clinton's administration has reacted by talking tough on trade but doing relatively little, hoping the import surge will abate.

However, there are growing signs of public frustration that so much responsibility for global economic recovery is falling on the US. The administration's public alarmism about the rising US trade deficit has stoked the flames.

Neither Al Gore nor George W.

Bush, the Democratic and Republican front-runners respectively for the White House, has capitalised on this mood, not least because they are instinctively internationalist. That leaves Mr Buchanan with a monopoly over isolationist and protectionist solutions. If these look like catching on, his mainstream opponents should respond by tackling him head-on.

They need to show Mr Buchanan's supposed remedies up for the dangerous quack medicine they are. Free trade and cheap imports undeniably cost some jobs in weak industries. But they create many more and generate prosperity, by enabling producers to source inputs efficiently and stimulating them to become more competitive. Erecting trade barriers would not only deny US businesses these advantages but could trigger a spiral of protectionism worldwide, which would severely harm US exports and the growing number of jobs which depend on them.

Mr Clinton, although no protectionist, has not done enough to persuade the US electorate of the basic case for open markets. Now he is committed to another world trade round, it needs to be made forcefully - by him and by his would-be successors. They should seize the opportunity presented by Mr Buchanan's candidacy to drive forward the argument for free trade.

COMMENT & ANALYSIS

Tax harmony? No thanks

Attempts to reform taxation across the EU will meet huge resistance, say Kevin Brown and Jim Kelly

They did not ask. They may not want to hear the answer. But they had better start listening. Oskar Lafontaine and Dominique Strauss-Kahn have separately suggested proposals that would harmonise Europe's corporate taxes and remove the national veto on taxation changes. Now Europe's business people are starting to respond. And the message to the politicians is clear: they hate it.

An FT survey of European business organisations, carried out over the past six weeks, reveals virtually no support for the ambitious tax reform agenda set out by the German and French finance ministers.

The main business organisations in 14 EU countries gave us their views. Only the Portuguese failed to respond. Jacques Creysse, director-general of Mouvement des Entreprises de France, the main French business organisation, gave full support to both tax harmonisation and a move to qualified majority voting on tax matters in the council of ministers. But Mr Creysse was the only national business leader to do so. And he opposed harmonisation unless it was designed to cut the overall tax burden.

There was patchy support for various elements of the proposals in Belgium, Greece and Sweden. And some business leaders said they were in favour of a modicum of voluntary co-ordination. But the thrust of business opinion was clear. From Germany to Ireland, Finland to Italy, there was overwhelming hostility to any enforced move away from competition between national tax systems.

There was also scepticism about the hidden agenda behind the proposals. "Business is very wary of the particular forum for this debate, which is a cartel of finance ministers trying to find ways to increase the aggregate level of tax," says Adair Turner, director-general of the Confederation of British Industry.

"There is not, in the business community, a visceral objection to this issue being on the table, but there is a lot of suspicion about where it would lead, given the motives of those who are putting it on the table, particularly in France and Germany."

The launch of the euro, the common currency for a single EU market, was always likely to be the spark that ignited a furious debate about whether EU members should harmonise tax and move towards qualified majority voting in the council of ministers on tax decisions. Monetary union inevitably increases pressures on national governments to create a level playing field for business.

But it was Mr Lafontaine, Germany's mischievous finance minister, who pitched the issue into the political arena. He sees tax harmonisation as an ideological goal of his Social Democratic party.

Mr Lafontaine is not alone. Mr Strauss-Kahn, his French opposite number, has publicly called for majority voting on tax issues. Mario Monti, the European commissioner for the single market, has said he opposes minimum corporate taxes but has warned that pressure for change may be difficult to resist unless member states end "harmful" tax competition.

Mr Lafontaine, memorably described by the UK's Sun newspaper as Europe's most dangerous man, was eventually persuaded to use the phrase "tax co-ordination" in an effort to

Corporate taxation

Country
Business organisation

Are you in favour of weighted majority voting on tax matters in the Council of Ministers?

Are you in favour of the proposed European Company statute?

Do you think that the tax base for companies across Europe should be harmonised?

If so, do you think the proposed European Company statute should be used to achieve this objective?

Do you think tax rates for companies across Europe should be harmonised?

Do you think EU countries should be allowed to offer special tax regimes to attract business from other EU countries?

Do you think governments should be allowed to use tax breaks to assist specific industries?

Do you approve of the European Commission's proposals for a withholding tax on cross-border savings income?

Do you think countries should be allowed to levy a zero rate of Value Added Tax on some products and services?

Do you think the burden of corporate taxation in your country is too high, too low, or about right relative to the rest of the EU?

Corporate tax rates, Jan 1999 (%)

(relative tax burdens are also affected by the tax base)

Too high Too low About right

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Country	Germany	France	Italy	UK	Spain	Dutch	Finland	Austria	Netherlands	Sweden	Belgium	Ireland	Greece	Portugal	
Business organisation	BDA	MEDEF	CNA	CES	CEOE	CEA	CFE	VOI	VNO-VNO	VBO	VBO-FEB	BEC	FG	FEDL	ANP/CP
Are you in favour of weighted majority voting on tax matters in the Council of Ministers?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Are you in favour of the proposed European Company statute?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Do you think that the tax base for companies across Europe should be harmonised?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
If so, do you think the proposed European Company statute should be used to achieve this objective?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
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Do you think governments should be allowed to use tax breaks to assist specific industries?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Do you approve of the European Commission's proposals for a withholding tax on cross-border savings income?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Do you think countries should be allowed to levy a zero rate of Value Added Tax on some products and services?	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Do you think the burden of corporate taxation in your country is too high, too low, or about right relative to the rest of the EU?	Too high	Too high	Too high	Too high	Too high	Too high	About right	About right	Too high	About right	Too high	About right	Too high	About right	—
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(relative tax burdens are also affected by the tax base)															
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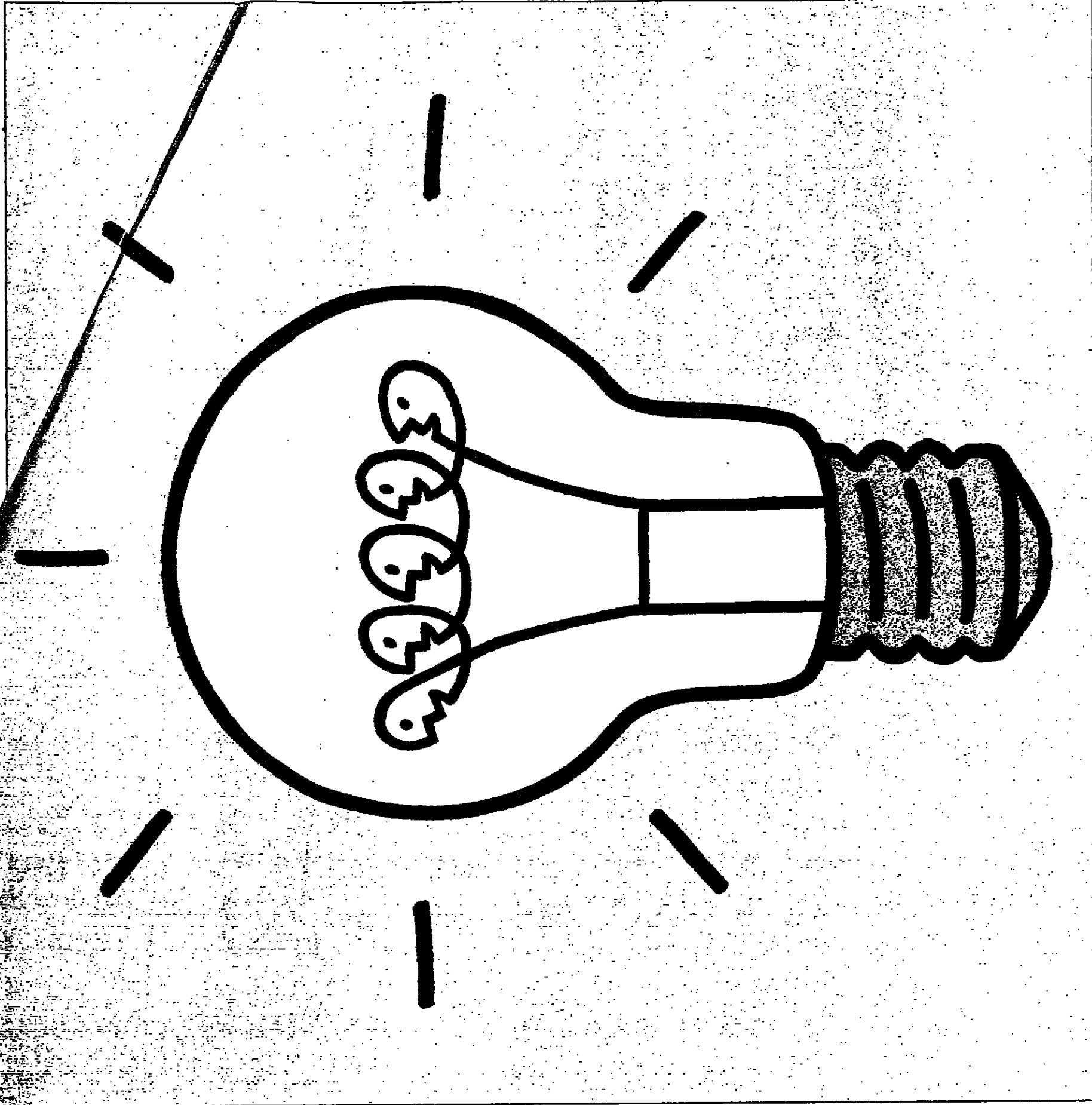
Mastering

INFORMATION MANAGEMENT

Monday March 1 1999

Part Five
New organisational
forms

FINANCIAL TIMES



Next week
Knowledge management

What do you need most?

ERNST & YOUNG

Welcome to Mastering INFORMATION MANAGEMENT

Part 5 of 12

This is the fifth part of a weekly series aimed at helping IT readers master the management of information and of the technology that creates, stores, distributes and processes it inside and outside organisations.

So far in the series we have looked at the challenges companies face with information and at the issues which arise and try to link activities along the supply chain (for full details of the series see the latest synopsis on page 15).

This week, the theme is organisational structures and the shape of the 21st century. The first article on pages 2, 3 and 4 is of a provocative, but highly challenging, account of the so-called "e-balance economy" by Thomas Malone and Robert Laubacher. Notwithstanding the current wave of big company mergers, the authors argue, large corporations are increasingly likely to fragment into flexible, temporary networks of electronically connected freelancers. Greater wealth, freedom and creativity may well be the result, but disruption and dislocation are among the dangers.

On pages 4 and 6 David Oliver, John Rose and Bart Victor deal with a more familiar organisational phenomenon: the blurring of boundaries between industries known as convergence. Using the Swiss banking and insurance sectors as an example they suggest that corporate strategy in converging industries can be usefully understood by examining companies' "intellectual capital profiles".

Achieving an effective global organisation in the age of globalisation remains an elusive goal for many multinational managers. Standardised information systems are one important "enabler" cited by the widely admitted ABB but what can one learn from the experiences of other companies which have recently embarked on such projects? David Henry and Geoffrey McMillan (pages 8, 10) share some of the insights gained from a study of seven global companies: success rates, they say, are generally better than in the 1970s and 1980s but massive investment is required and the business benefits need to be clearly defined.

It is always good to be reminded of history and those intocinated by new organisational forms should note Linda Appleby's chronicle of past experiments. "Companies that adopted the hybrid designs of the 1960s and 1970s soon learned that the new structures and systems bred conflict, confusion, information overload and costly duplication of resources", she writes on page 11. The "networked IT revolution" of the 1990s, though, means that companies can now combine the resources of a major player with the adaptability of a start-up.

Finally, John Henderson and N. Venkatarman sum up a number of issues discussed so far in Mastering Information Management. They remind readers of a fundamental lesson of the series - that IT is no longer merely a "function" which boosts operational efficiency - and set out a framework for capturing its wider organisational value.

As promised in Part One, this week we publish our first reader's letter (page 10) and welcome further correspondence complementing or disputing points made by any of the authors. At the end of the series you will be invited to test your knowledge and skill with a competition. Have you Mastered Information Management? Please note that our website, www.mastering.com contains summaries of each week's material, plus additional background reading.

* You can e-mail us at editor@mastering.com or write to FT Mastering, 3rd floor, Number One Southwark Bridge, London SE1 9HL, for back copies please e-mail backissues.mim@ft.com or telephone +44 (0) 171 688 6323.

All change



Thomas W. Malone is the Professor of Information Systems at the MIT Sloan School of Management.

His work focuses on how organisations can help people work together. He is the author of *The Economics of Information* and *The Economics of the Internet*.

In October 1991, Linux Torvalds, a computer-science student at the University of Helsinki, made available on the Internet the kernel of a computer operating system he had written. Called Linux, it was a free, open-source version of the ubiquitous Unix operating system. Torvalds encouraged other programmers to download his software for free - and to use, test and modify it as they saw fit. A few took him up on the offer. They fixed bugs, tinkered with the original code and added new features, and they too posted their work on the Internet.

As the Linux kernel grew, it attracted the attention of more and more programmers, who contributed their own ideas and improvements. The Linux community soon encompassed thousands of people around the world, all sharing their work freely with one another. Within three years, this informal group, working without managers and connected mainly through the Internet, had turned Linux into one of the best versions of Unix ever created.

Imagine how such a software development project would have been organised at a company such as IBM or Microsoft. Decisions and funds would have been filtered through layers of managers. Formal teams would have been established and assigned tasks. There would have been budgets, milestones, deadlines and status meetings - along with the accompanying turf wars, overruns and delays. The project would have cost an enormous amount of money, taken years to complete and quite possibly produced a system less valuable to users than Linux.

For many executives, the development of Linux is easily dismissed as an arcane tale of hackers and cyberspace - a neat, wired marketplace kind of story. But it does not have the reputation of the serious world of big business. This is because the Linux project is a model for a new kind of business organisation that could form the basis of a new kind of economy.

The fundamental unit of this economy is not the corporation but the individual. Tasks are not assigned and controlled through a stable chain of management but rather are carried out autonomously by independent contractors. These electronically connected freelancers - "e-lancers" - join together into fluid, temporary networks to produce and sell goods and services. When the job is done - after a day, a month, a year - the network dissolves and its members become free agents again, circulating through the economy seeking the next assignment.

The hollow corporation

A future of temporary networks would seem to run counter to the view of managers sweeping the globe. The headlines of the business press tell us that the "hollow corporation" is the future. "The hollow corporation" is a term used by MIT's Thomas W. Malone and N. Venkatarman to describe a new kind of business organisation that could form the basis of a new kind of economy.

Twenty-five years ago, one in ten US workers was employed by a Fortune 500 company. Today, the ratio has dropped to less than one in 10. Large companies are far less vertically integrated than they were in the past and rely more and more on outside suppliers to produce components and provide services. While big companies control ever larger flows of cash, they are exerting less and less direct control over actual business activity. They are, you might say, growing hollow.

Even within large corporations, decisions are increasingly being pushed to lower levels. Workers are rewarded not for efficiently carrying out orders but for figuring out what needs to be done and doing it. Many large industrial companies - ABB and BP Amoco are among the most prominent - have begun themselves up into numerous independent units that transact business with one

GLOSSARY

application: a piece of software designed to meet a specific purpose.

bandwidth: A network's capacity to carry data. Business process re-engineering: An approach to corporate change which emerged in the 1980s. It involves analysing companies' core processes and reassembling them in a more efficient way, without functional divides.

chief information officer (CIO): The senior executive in a company responsible for information management and for delivering IT services. client-server architecture: A network in which computer processing is distributed among many individual PCs (clients) and a more powerful, central computer (server). Clients can share files and retrieve data stored on the server.

collaborative software: Groupware, such as Lotus Notes or Microsoft Exchange. computer-aided design (CAD): Refers to any computer-enabled method of design; also called computer-assisted design.

database: A software package for storing data. data-mining: The process of discovering previously unknown information from the data in data warehouses.

data warehouse: A place - virtual or physical - in which business information is gathered, electronically, business transactions conducted electronically, including order of the Internet, enterprise resource planning. An integrated system of operation applications combining logistics, production, distribution, contract and order management, sales forecasting, and financial and HR management.

electronic data interchange (EDI): Transmission of documents via any electronic medium using a set of standard forms, messages and data elements.

e-mail: A system that enables computer users to send messages to one another's machines. Ideally it should allow them to attach files and find other users' mail addresses.

extranet: An extended intranet, based on Internet-standard protocols, which allows access to the Internet by people outside the enterprise. groupware: Software that facilitates communication, co-ordination and collaboration among people.

hardware: The magnetic, mechanical and electrical components of a computer and its peripheral devices.

hypercollaboration: Aggressive form of competition in which companies constantly try to redefine the competences needed for success in a particular market.

Internet: The global computer network. intranet: A private network within an organisation, often protected from Internet traffic by a "firewall" (software that controls access from the outside).

information systems (IS) strategy: The identification and development of systems of applications for development.

local area network (LAN): A network of computers in a relatively small geographical area.

Lotus Notes: A proprietary software that allows users to share many different types of unstructured and semi-structured information. mainframe: The central processing unit of a large computer, usually receiving input from a number of terminals.

marketplace: The marketplace in e-commerce, microprocessors. Complex electronic circuits that comprise a computer's central information processing unit.

Information technology (IT): The hardware and software that is used to process information.

knowledge management (KM): A term with many meanings. It includes deliberate efforts to maximise an organisation's performance through creating, sharing and leveraging knowledge and experience from internal and external sources; see KM 2 and 6.

legacy system: An old database or other application, probably superseded but still in use.

local area network (LAN): A network of computers in a relatively small geographical area.

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marketplace: The marketplace in e-commerce, microprocessors. Complex electronic circuits that comprise a computer's central information processing unit.

multicomputer (or "departmental computer"): A type of computer that appeared in the early 1970s, a stage in the evolution from mainframes to PCs.

multimedia: A combination of sound, graphics, animation and video used to display information on a computer.

online: Having a computer and modem, or accessible by someone with such tools. operating system: A program that manages the internal operations of the computerised, allocating memory to work files, for instance, re-linking of the business or economic outlook, caused by a startling intellectual or technological discontinuity.

parallelism: The use of multiple processors to perform a task. paradigm shift: Term used to describe a complete re-linking of the business or economic outlook, caused by a startling intellectual or technological discontinuity.

platform: The sum of a computer's operating system, hardware architecture and software. It defines the applications that can be run. program: A set of definitions and instructions that enable a computer to perform a particular task.

protocol: The language that one computer uses to talk to another.

software: The programs that are run on a computer system.

value chain: Concept widely associated with the management thinker Michael Porter which focuses on a company's internal processes and the interactions between different elements of the organisation. Different shows how and where value is added.

wide area network (WAN): A network of computers over a wide geographical area. worldwide web: An application which runs on the Internet; it provides a standard way of publishing and accessing information.

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Your guide to Mastering INFORMATION MANAGEMENT

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Improving company performance

Week two Feb 8

Competing with information

Week three Feb 15

Managing IT in the business

Week four Feb 22

The smarter supply chain

Week five March 1

New organisational forms

Week six March 8

Knowledge management

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Coping with the people aspects

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Conclusion

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personalised hospitality service. It's strongest impact on processes is its capacity to change business capabilities, leading to the creation of new business models. Encyclopaedia Britannica is in the midst of a serious business shift, as it attempts to transfer its dominant position in print media to electronic media. Hallmark Cards is trying to straddle the physical space and the virtual space. New entrants such as Amazon.com and eBAY.com are challenging the traditional assumptions of supplier-buyer relationships. Amazon.com has rocketed book-retailing. Television network NBC is trying to create an entertainment platform that is secure across network television (NITC), cable (CNBC) and the Internet (www.nbc.com).

2. Communities of practice

Value realisation requires an organisational architecture that is able to coordinate a community of professionals with complementary expertise. The second principle for value creation focuses on the need for organisational coordination. Value realisation is not simply a matter of allocating some resources and waiting for results to appear. Nor is it a matter of restructuring the IT organisation with greater decentralisation and autonomy — many companies still find themselves swinging back and forth on the centralisation-decentralisation pendulum.

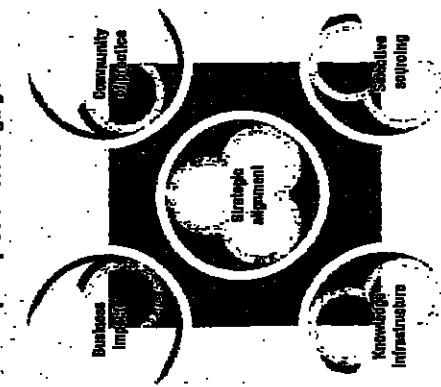
As IT becomes more important to business operations, the roles and responsibilities of those managing this critical resource should be reconceptualised. Successful companies are designing communities of professional practice that are different from traditional hierarchical and rule-bound organisations. These communities are often IT professionals from one another and their business clients. Consider an organisation that is seeking to implement an enterprise resource planning system (such as SAP or Oracle) for a supply chain or for a global new product development. It is unlikely that all the professionals involved will work for the same manager or even the same company (given use of external vendors and consultants). Or consider the development of global transaction processing systems in banks such as ABN-Amro. The teams responsible cut across organisational boundaries and different types of expertise and organisations are developing ways in which experts involved in such tasks can feel part of a larger system bound by shared goals and incentives. The power of networked capabilities is high when the external "community-of-control" is minimised and expertise is shared. We suggest that IT organisations should explore the benefits of creating a professional context that fosters trust, innovation and knowledge sharing — a community of practice.

Knowledge sharing is a community of practice. Consider Xerox's deployment of a global community of IT professionals. Xerox has a large number of IT professionals in its business units. Working together, they were able to provide Xerox with a now, coherent infrastructure in national times with significant cost savings. The community became the forum in which project requirements were interpreted and relayed to widely distributed operating groups for implementation. While each member of the community ultimately acted within the context of his or her business unit, the alliance was the foundation for the broad commitment needed to accomplish the project.

A similar strategy is being used by AT&T America in its efforts to improve its ability to find and drill for oil. Building upon initial experiments with "virtual teams" — experts working together via video conferencing — it has developed a global community of practice, involving over 250 of AT&T America's own drilling professionals and more than 500 from joint-venture companies, the community uses Internet-based systems to share best practices and lessons learned. It has proved to have significant business value; after all, effective problem-solving in the short term boosts long-term cost-effectiveness.

3. Selective sourcing
Value realisation is enhanced by assembling the required IT capabilities through a portfolio of relationships that is adapted over time. The third principle for value creation focuses on

Figure 1: Five principles for leveraging IT



the need for selective outsourcing of IT through a variety of alliances and partnerships. This complements the communities-of-practice principle. Given the tremendous growth in IT products and services (estimates suggest over 50,000 new products and services introduced per year), it is unrealistic to expect any company to maintain the required expertise in-house. The principle of selective sourcing stipulates that every organisation should articulate a strategic approach to sourcing and assembling its required capabilities. A rule of thumb is that a company should direct internal expertise to IT-enabled capabilities that differentiate its operations, while allowing partners to see to those capabilities that at best provide competitive parity.

Take the case of J.P. Morgan. In 1996 it set up a consortium, Pinnacle Alliance — in which CSC was the primary partner, but which also included AT&T Solutions, Anderson Consulting and Bell Atlantic — to manage its data centres and voice, data and software services. The company has redeployed its internal resources towards the development of complex computer programs needed for securities trading and other financial services.

J.P. Morgan is not unique. ABN-Amro, Exploration, Shell, Volvo, General Dynamics, Xerox, DuPont and others are all trying to optimise their IT capabilities through outsourcing. The challenge they face is to avoid thinking of outsourcing as a means of abdication of responsibility for this critical resource. Instead it requires them to orchestrate a portfolio of different types of relationships for different levels and types of capability.

Some relationships are set up simply to get communications networks or data centres up and running. Others are more strategic, in that they drive business differentiation. Although it is preferable to keep differentiating activities in-house, companies may lack the necessary expertise, demand that they outsource or find a way to develop a "virtual business" model to satisfy the demand for technology-based capabilities. Identifying and building capabilities that might be possible in the future and entering into strategic relationships early on is a big challenge.

4. Knowledge infrastructure

The new economy is likely to reward intellectual assets more than physical assets; value realisation requires the creation of a business platform suited to this environment.

There is widespread view that a new type of economy is emerging, in which organisations will be less characterised by their ability to make, store and move physical assets than by their ability to create, share and use knowledge and expertise. Vincent, Harbottle of General Motors, for example, has described this as a shift from "make-and-sell" to "sense-and-respond". James Wallensen of The World Bank has proclaimed that his organisation needs to become "The Knowledge Bank".

If such aspirations are to be realised, companies will need to have the right information infrastructures in place. However, current infrastructures — which are designed to support operational effectiveness — are proving to be inappropriate. This challenge is to design and deploy infrastructures that will serve as the backbone for the management of intellectual capital. For beyond static databases for structured numerical data, these will enable virtu-

al work and the sharing of context-rich information. They will link individuals to an array of experiences, documents and lessons learned, blurring the distinction between "doing" and "learning". Companies will be able to mobilise their expertise anywhere in the world and bring it to bear on a specific problem or training opportunity.

While the importance of practice principle focuses on the importance of expert teams, this one is about leveraging the knowledge contained in the whole organisation. We can see it in practice already, as many organisations develop the knowledge infrastructure that will sustain them well into the next century.

Schlumberger's Information Network (SINet), for example, allows employees rapidly to download updated design tools (and tips for their use), enhancing their ability to solve customers' problems. The network has also been of benefit in training the company's young professionals. The US Army has established the Center for Army Lessons Learned to spearhead its efforts to share knowledge. As it increasingly has to undertake "peace-keeping" operations, it wants to rapidly and transparently disseminate its lessons. Training increasingly involves multimedia simulations. Schlumberger's UK supermarket chain, has an "innovation centre" in which managers can explore new work environments designed to promote innovation through better knowledge sharing and team collaboration.

5. Strategic alignment

Value creation through IT rests on strategic alignment of the four principles discussed above; this is a dynamic process, as the changing business environment drives the evolution of new organisational models.

An overarching principle of value creation is that senior management should be able continually to link business and IT operations. An organisation's leaders should be able to integrate the four principles discussed so far in a way that is unique to the organisation. Otherwise, the four principles taken individually could lead to different approaches to value maximisation or even conflict with each other. Accordingly, we have placed it at the centre of Figure 1, above.

Alignment needs to be seen in dynamic terms, as helping to guide the organisation into the information economy as well as guaranteeing efficiency today. Senior managers must ensure that actions guided by the four principles above are consistently adapted in response to a turbulent, intensely competitive environment.

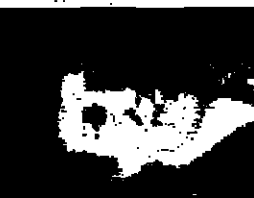
Strategic alignment is made more important by the growing emphasis on managing intellectual capital. Thus there is a shift towards creating knowledge infrastructures that also serve as platforms for superior product/service delivery. IT investments cannot be decoupled and managed independently from other business investments.

Dei Computer's business model cannot be designed and implemented without IT (business impact principle). At the same time, one of the reasons for its success is its ability to learn about customer preferences and to reconfigure product/service offerings accordingly (knowledge infrastructure principle). Indeed, the rapid growth of the Internet and of electronic commerce creates major opportunities for integrating the four principles.

Not analysis but leadership

Realising the value of IT is not a matter of fine-tuning the IT budget process, or does it involve more refined calculations, or a matter of looking for new metrics, or even a matter of waiting for IT — not for greater operational efficiency, but for business designs. Value realisation is also a matter of leading the organisation into the 21st century, where information and knowledge will be much more important drivers of business value than they are now.

Just as obtaining value from globalisation requires more than simply establishing a set of overseas subsidiaries, obtaining value from information means more than just buying powerful applications and systems. We hope that the five principles discussed in this article will generate constructive dialogue. They should allow managers responsible for IT leadership to move discussions of value realisation away from the selection of metrics and towards ways of creating and appropriating business value under uncertain conditions.



John C. Henderson is Professor of Management Information Systems and Director of the Systems Research Center at Boston University School of Management.



M. Venkatraman is the David J. McGrath Jr. Professor of Management at Boston University School of Management and a research principal at the Systems Research Center.

This week

All change for the e-lance economy

Thomas Malone and Robert Laubacher foresee a world of electronically connected freelancers. Pages 2-4

Strategies for converging industries

David Oliver, Johan Ross and Bart Victor link convergence in financial services to companies' intellectual capital profiles. Pages 4-8

Is standardised global the worth the bother?

David Feeny and David McKillen identify the main issues for managers involved in organisation-wide IS projects. Pages 8-10

Time for the big small company

Corporate structures can now combine the best features of the hierarchy of the hierarchy with entrepreneurial flexibility, says Lynda Applegate. Pages 10-13

Five principles for making the most of IT

John Henderson and M. Venkatraman describe the principles for extracting value from IT. Pages 13-14

COVER ILLUSTRATION

David Webster

for the e-lance economy

Summary

Despite the wave of big mergers and acquisitions over the past year or two, the days of the big corporation — as we know it — are numbered. While the cash flows that they control are growing, the direct power that they exercise over actual business processes is declining. Because modern communications technology makes decentralised organisations possible, control is being passed down the line to workers or outsourced to external companies. In fact, say **Thomas Malone** and **Robert Laubacher**, we are moving towards an "e-lance economy", which will be characterised by shifting coalitions of freelancers and small firms. Although this recalls preindustrial economic models, dominated by large numbers of competing microbusinesses, a critical difference is that these small, agile companies will enjoy the information resources traditionally associated with large corporations. The power of e-lancing can be seen in the explosive growth of the Internet, which is taking place without any overall management. The role of the manager will change dramatically as companies see the virtue of achieving results by allowing them to emerge rather than by controlling them at all stages.

can be shared instantly and inexpensively among many people in many locations, the value of centralised decision-making and bureaucracy decreases. Individuals can manage themselves, coordinating their efforts through electronic links with other independent parties. Small becomes good.

In one sense, the new co-ordination technologies enable us to return to the preindustrial organisational model of small, autonomous businesses — businesses with a workforce of just one or a few — conducting transactions with one another in a market. But there is one crucial difference: electronic networks enable these microbusinesses to tap into the global reservoirs of information, expertise and financing that used to be available only to large companies. The small companies enjoy many of the benefits of the big without sacrificing the leanness, flexibility and creativity of the small.

In the future, as communications technologies advance and networks become more efficient, the shift to e-lancing promises to accelerate. Should this happen, the dominant business organisation of the future may not be a stable, permanent corporation but rather an elastic network that might sometimes exist for no more than a day or two. We will enter the age of the temporary company.

The temporary company

From the 1920s to the 1940s the movie business was controlled by big studios such as MGM and Columbia. They employed actors, directors, writers, photographers, publicists, even projectionists — all the people needed to produce a movie, get it into theatres and fill the seats. The film industry was a model of big-company, industrial organisation.

By the 1950s, however, the studio system had begun to disintegrate and power gradually shifted from the studio to the individual. Actors, directors and screenwriters became free agents, and made their own decisions about which projects to work on. Today independent producers, writers, directors, assemblers, financiers and other players in the industry are finishing the company that made it come out of existence, but its members, in time, this technology in new combinations to work on new projects.

The shift in the film business from permanent companies to temporary companies shows how entire industries can evolve rapidly from centralised to network structures. Such transformations are by no means limited to the idiosyncratic world of Hollywood. Consider how manufacturers today are pursuing radical outsourcing strategies and letting external agencies perform more of their traditional activities.

An extreme example is the fashion accessories

Many carmakers have been outsourcing more and more of their basic design work, granting ever greater autonomy to external design agencies. A shift to an e-lance economy would bring about fundamental changes in virtually every business function, not just product design. Supply chains would be more flexible, and subject to fit the needs of a particular project, as would the project itself. Projects could be undertaken independently, specialised manufacturing companies would be brought in and sold in open markets. As a result, the project would be performed in a variety of ways, design shops and even consumers.

Marketing would be performed in some cases by brokers, in other cases by small companies that would own brands and certify the quality of the merchandise sold under them. In still other cases, the ability of consumers to share information on the Internet would render marketing obsolete. The Internet would simply "swarm" around the best offerings. Financing would come less from retained earnings and big equity markets and more from venture capitalists and interested individuals. Small investors might trade shares in ad hoc, project-based enterprises via the Internet. Business would be transformed. But the greatest changes would be in the function of management itself.

As a thought experiment, let us take a brief journey forward in time, into the middle of the 21st century, and see how cars, the archetypal industrial product, are being designed.

General Motors, we find, has split into several dozen separate divisions, and these divisions have outsourced most of their traditional activities. They are now small companies concerned mainly with managing their brands and funding the development of new models of car. Numerous independent manufacturers perform fabrication and assembly on a contract basis. Vehicles are planned by freelance engineers and designers, who join together in an ad hoc, ever shifting coalition. One coalition may, for example, focus on engineering an electrical system, while another may concentrate on managing the integration of subsystems into complete cars. These design coalitions are autonomous and self-organising, and all depend on a universal, high-speed computer network for communication and coordination. A highly developed venture-capital industry has emerged to assess the viability of our teams and to raise the most profitable. The vast network of independent designers, engineers, financiers and other players in the industry is finishing the company that made it come out of existence, but its members, in time, this technology in new combinations to work on new projects.

The shift in the film business from permanent companies to temporary companies shows how entire industries can evolve rapidly from centralised to network structures. Such transformations are by no means limited to the idiosyncratic world of Hollywood. Consider how manufacturers today are pursuing radical outsourcing strategies and letting external agencies perform more of their traditional activities.

An extreme example is the fashion accessories

The transformation of management

In the mid-1980s, when the Internet was just entering the consciousness of most business executives, the press was full of disaster stories. The Internet, the pundits proclaimed, was about to fall apart. Traffic was growing too fast; there were too many sites and too many people online. Demand would outstrip capacity and it was only a matter of months before the entire network crashed or froze. It never happened. The Internet has continued to expand at an astonishing rate. Its capacity has doubled every year since 1988 and today more than 300 people are connected to it. They use it to order books, check the weather in distant cities, trade stocks, send messages and discuss everything from soap operas to particle physics.

So who is responsible for what is arguably the most important business development of the past 50 years? No one. No one is in charge of the Internet. It is a new class of combined efforts of all its users, who have created a network that would have grown this fast for this long if it had been managed by a single company, most say no. Managing such a massive and unpredictable explosion of capacity was already moving towards such a structure.

Continued on page 4

Continued from page 3

and creativity would have been beyond the skills of the most senior and capable executives. The time has come when the role of a manager is to create a framework within which the company's operations can be managed. The role of a manager is to create a framework within which the company's operations can be managed. The role of a manager is to create a framework within which the company's operations can be managed.

erally, and procedures for resolving disputes. Similarly, for an e-business economy to work, while new designs of agreements, specifications and contracts are needed, the role of a manager is to create a framework within which the company's operations can be managed. The role of a manager is to create a framework within which the company's operations can be managed.

nation. Few people are able to conceive of a completely new economy, where much of what they know about business no longer applies. Much business, a colleague of ours at MIT, says that most people are locked into a "centralized mindset". When we look up and see a flock of birds flying in formation, we tend to assume that the bird in front is the leader. In fact, biologists tell us, each bird is a leader. In fact, biologists tell us, each bird is a leader. In fact, biologists tell us, each bird is a leader.



Robert J. Liebowitz is a research associate with the 21st Century Initiative at the MIT Center for Co-ordination Sciences.

Strategies for converging industries

Summary

Boundaries between industries are blurring. This process, known as "convergence", is taking place not only in high-tech industries but also in more traditional sectors, such as banking and insurance. In Switzerland, for example, a new *bancaassurance* industry is emerging. There are two types of convergence. "Supply-driven convergence", in which products from one industry enhance the value of products from another industry, occurs when companies strive to shape (or at least conform to) emerging technical standards. "Demand-driven convergence", in which products from different industries come to be seen as interchangeable, happens when companies attempt to provide broader products to increasingly demanding customers. A useful way to understand corporate strategy in converging industries, say **David Oliver, Johan Roos and Bart Victor**, is to examine "intellectual capital profiles". These indicate the degree to which businesses focus on customers, internal processes, employees and long-term investments. Generally, companies seek mergers and alliances with companies that have dissimilar (and therefore complementary) intellectual capital when convergence is demand-driven, but when it is supply-driven, "like attracts like".



David Oliver is a research associate at IMD, Switzerland. His research focuses on knowledge-based organisations.

The financial services industry is in the throes of significant change. To cite just one example, in August 1997 - after three years of joint-venture activity - Swiss Reinsurance - Zurich-based bank, insurance and asset manager - merged with Swiss Insurance Bank of Switzerland and Swiss Bank Corporation (which had previously formed a joint venture with insurance companies Swiss Life and Swiss Re). The biggest bank in the world, with a market capitalisation of \$60bn. What is going on in the traditional Swiss banking and insurance industries?

The term increasingly used to describe what is happening within banking and insurance (as well as between telecommunications and information technology, road hauliers and railways, and companies in the emerging "multimedia" industry) is "convergence". As traditional boundaries separating these industries fall, it is becoming more and more difficult to predict around which business model companies will eventually settle. For example, will the winning multimedia business model

more closely resemble that of the TV, cable TV or film industry? Will companies in the new *bancaassurance* industry more closely resemble banks, insurance companies or something completely different?

We do know that different kinds of information are going to be necessary to make sound business decisions in converging industries. It makes little sense to try to understand these industries by studying the present industries in isolation. For example, in the case of banking, mergers and acquisitions in banking industries need to be seen in the context of the telecommunications and value chains. We have to develop new management and acquisition techniques for converging industries.

Just what kinds of information will we need in order to win in converging industries? In this article, we will explore one new source of information - intellectual capital profiles - which we think can help managers do just that. But first we will review what we already know about convergence.

Continued on page 6

Further reading

- Greenstein, S. and Krausz, T. (1997) What does industry convergence mean? In Volle, D. (ed) *Converging in the Age of Digital Convergence*. Boston, MA: Harvard Business School Press.
- Oliver, D. and Roos, J. (1998) *Shaping a Balance in Creative Organisations*. Maidenhead: McGraw-Hill.
- Roos, J. et al. (1997) *Intellectual Capital: Navigating in the New Business Landscape*. London: Macmillan.
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Five principles for making the most of IT

Summary

IT has gone from being a separate, rather arcane business function to being a central part of competitive strategy. But how can companies maximise its potential to create value? According to **John Henderson** and **M. Venkatraman** they need to adhere to five principles. First, they must understand that IT is far more than just a means of boosting operational efficiency. It can profoundly change the nature of products, services and business processes. Second, successful implementation of IT systems requires the establishment of cross-functional "communities of expertise", for which "command and control" management is inappropriate. Third, as we have seen earlier in this series, the growing complexity of the IT market means that selective outsourcing is essential. Fourth, companies must ensure that their IT infrastructures maximise the knowledge locked within them and focus it where needed. Finally - and most importantly - managers must strive to align these principles with one another and with their corporate strategies in a fast-changing world.

We are in the midst of profound shifts in how corporations are structured, how markets function and how delivers superior value to customers and shareholders. We need to rethink the role of information systems and technology. From merely supporting business operations to being central to core capabilities, and from an internal, operational focus to an external, customer focus.

Jack Welch, chairman of General Electric, put it well in his 1995 letter to shareholders: "Information technology is making the huge transition from being a support function to being a core capability. It was in the 1980s - with its own language, rituals and priesthood - to the indispensable competitive tool, the central nervous system of virtually every operation in the company." Managers across a wide variety of industries and technologies will be an important driver of strategic and organisational change in the 21st century.

However, companies are confounded by the complexities and subtleties involved in leveraging IT resources. How best to extract value from IT is undoubtedly not an analytical issue of figuring out the most appropriate value metric. It is a question of creating a new management approach that is suited for the information age, rather than simply overlaying IT on industrial business models. Realising IT's potential to create value has emerged as a senior leadership issue and cannot be delegated to lower operating management levels. Senior management teams and boards of directors need to take responsibility for IT that even before.

Based on our research on both sides of the coin, we have distilled a set of five principles for effectively capitalising on the value of IT. These are summarised in Figure 1 on page 14.

1. Business Impact

Value realisation lies in the design of new business models that are enabled by IT and in the design of products/service platforms for the information age. Every company's products and processes will become increasingly information-intensive and linked through communication and data networks. So we cannot afford to look at the value of IT just from an operational efficiency perspective. Just how IT resources will be directed at enhancing

Continued on page 14

Continued from page 7

motivation, they are also hampered by their local view of the business.

At upper levels of management - where authority, motivation and perspective enable organisation-wide change - quick response is hampered by the time it takes to recognise that change is needed and the lack of timely, accurate business information needed to understand what must be done. In traditional hierarchies, management cycle times are defined around yearly business planning and budgeting, and quarterly reporting cycles. Senior managers meet annually to set organisation-wide performance targets, which are then segmented into specific divisional and functional operating performance targets. Functional and market performance is reviewed quarterly to determine whether changes are needed. To respond effectively, managers at the top must understand what has happened in the local business environment to cause changes in firm performance. Absent detailed, timely local information from the field, this understanding takes time. Thus, hierarchical control is only effective in relatively stable business environments where change happens slowly and there is sufficient time to respond.

"Traditional entrepreneurial organisations enable fast response without loss of control by keeping everyone in the information and decision making loop. Entrepreneurial companies do not depend on structured jobs to ensure coordination of activities, and they don't require formal planning processes and performance reviews to monitor whether the company is achieving its goals. In a traditional entrepreneurial company, the cycle time of operations and management is based on daily personal interaction between the business who act as "eyes and ears" of the organisation and the "brain" who execute the strategy. Since the market they have instant access to information, they can make decisions and take action on the spot. This real-time sharing of information and perspective is fundamental to effective entrepreneurial control. As an entrepreneurial company gets larger and more complex, control breaks down and more structured operating and management processes are required.

Now let us similarly consider an information age organisation that must manage both complexity and speed simultaneously (see Figure 3). Like its traditional organisational counterparts, information-age control depends upon a deep understanding of both the local and company-wide business context and the ability to relate decisions and actions to company performance. The information required to achieve such understanding must be readily accessible to everyone, with the perspective of senior management with those doing the work.

IT plays a critical role. It can co-ordinate complex, fast-cycle operating processes and, more importantly, give decision-makers access to detailed, real-time information about operations. It can also link this information with real-time performance and market information providing a detailed understanding of business dynamics.

These fast-cycle, information-based control systems resemble the cybernetic control systems that enable fault-tolerant operation of missile guidance systems, air conditioning systems and nuclear reactors. Such systems can run on "autopilot" if the parameters for successful control are known with certainty and programmed in. If conditions veer beyond these parameters, early warning systems enable human intervention. In organisations, decisions about how to evaluate and respond to changes often involve more than one unit and more than one organisational level. Communication mechanisms must be in place to enable decision-making teams to engage in timely dialogue to determine what course of action to take.

Once the information is flowing and employees have the motivation, knowledge and capability to use it, they can quickly evaluate options and continually refine both strategy and operations. At this point, organisational control becomes a continuous, information-enabled learning process rather than a static, compliance-based monitoring system.

Empowerment is not anarchy - "Empowerment," "teamwork" and "collaboration" have become fashionable management concepts in the 1980s. They each describe different facets of organisational authority: the formal and informal

Figure 2: The IT design challenge parallels the organisation design challenge

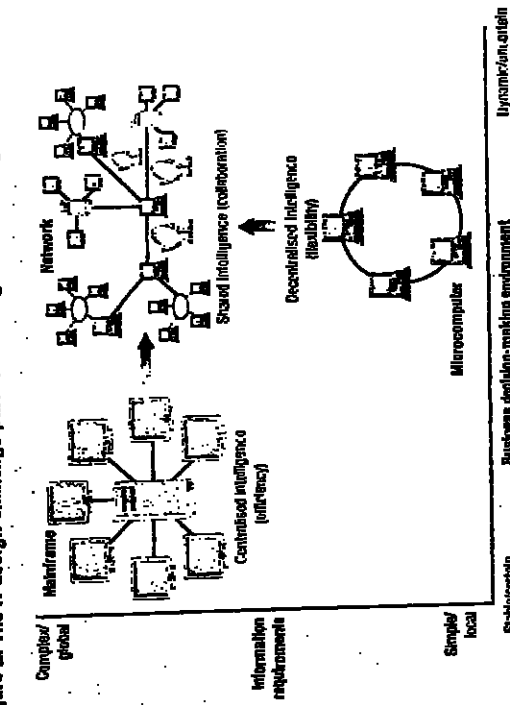
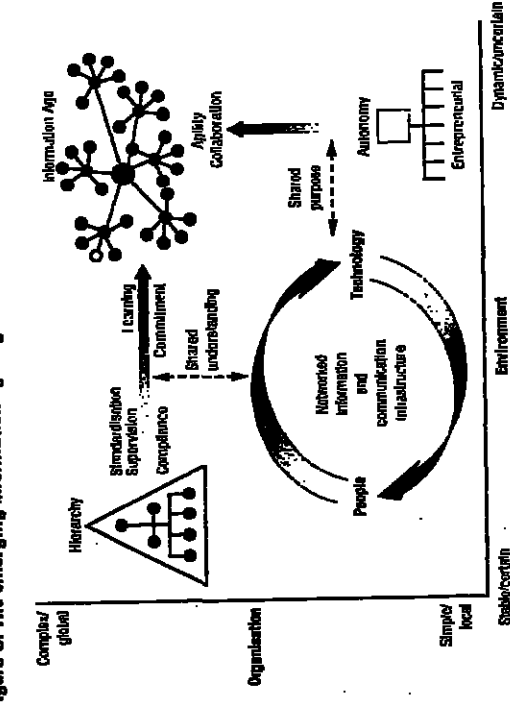


Figure 3: The emerging information age organisation



structures, co-ordinating mechanisms, decision-making responsibilities, compensation, incentives and sanctions that define the distribution of power and accountability within a company.

In thinking about organisational authority it is helpful to view the company as a network of roles and relationships that unite principals (owners and senior management) and agents (those individuals hired by the principals) in defining and executing strategy. The challenge in designing effective

Conclusion

Managers have made significant efforts during the past two decades to reorganise to meet the challenges of operating in a fast-paced, dynamic, hypercompetitive world. But the decade draws to a close, many managers are feeling the grim possibility that the 21st century will demand even more radical change. As the Internet redraws markets, industries and organisations, companies must respond even more quickly, deliver even better products and services, and cut costs even more deeply. Layers of management have been cut and the authority increased to the point where many worry that their organisations will sink out of control. The assumptions of traditional organisational models, such as the hierarchy and the entrepreneurial model, have been pushed to the limit.

Crisis is a precondition for the emergence of a new theory or model. But when pressure with crisis, most people do not immediately reject existing models. Instead, they attempt incremental adjustments that, over time, begin to blur the fundamental structure and assumptions upon which the old models were based. Practitioners are often the first to see signs of old models as the familiar rules for solving problems become ineffective. At some point, total reconstruction is required. During the transition, however, there is frequently an overlap between the problems that can be solved by the old and new models. But no matter which is used, there is a decisive difference in the modes of solution.

It thus appears to be the point at which we now find ourselves. A crisis, largely driven by a fundamental mismatch between environmental demands and organisational capabilities, has called into question many of the assumptions of traditional organisations. Academic thinking in this area is being led by practice. The lessons from managers in the field suggest that a new organisational model is emerging that harnesses the power of today's technologies in the hands of a more knowledgeable workforce.

The old barriers between the hierarchy and the entrepreneurial organisation are becoming blurred. New structures are evolving that unite the flexibility and speed, motivation and creativity that used to be the hallmark of the hierarchical organisation with the efficiency, scale, scope and control of the hierarchy (see Figure 3). Those companies that can make the transition will survive and prosper in the future. Those that cannot adapt will perish.

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Continued from page 7

● The business is usually best served by delivery of an adequate system sooner rather than of an all-embracing one later; mandating short time scales - "time-bidding" - drives a project culture which reflects the business priority.

In the context of global IS projects, achievement of these success factors is made much more difficult by the intrusion of the factors depicted in the outer rim of Figure 1. Consider the following:

● When new and complex systems are implemented across multiple product businesses (or scores of national subsidiaries) the time required will be measured in years not months. It is therefore unrealistic to assume that a single executive will stay the course as project champion; instead, a succession of champions must be planned. And how many able volunteers will be found to join the project team? Whereas being part of a high-profile, six-month local project can be career-enhancing, disappearing to another country for several years is a different prospect.

● Global time differences are a daily problem in addressing such success factors as team-working and managing across cultures. Expectations, while technology and video-conferencing can help, there are no mutually scalable working hours that link Europe, the US and Australia.

● Global IS projects are usually associated with shifts in organisational power that are more easily unhealed in organisational charts than in organisational mindsets and culture. Project governance and championship arrangements may be extensively scrutinised for various shades of political correctness. The implementation of such state-of-the-art, so dear to head office in London, may be obstructed as officious meddling or a costly irrelevance by the Brazilian factory management.

While project management language has dramatically improved the track record of global IS projects, they continue to demand high levels of management ability, time and attention. They clearly are not to be undertaken lightly.

Software packages

Although package software has little obvious impact on these success factors, it is clear that most global IS projects are based on the available ERP systems. Comments from our research suggested several advantages to this approach:

- It short-circuits potentially lengthy debates about functional requirements; what is required is what is in the package.
- It frees people to focus on the challenges of project implementation rather than programming.
- It emphasises and assists the creation of standard global business processes.
- It assists the achievement of data standards (interestingly, this related more to older centralised software such as SAP R2 rather than distributed software such as SAP R3).

Dear Sir

KEEP INFORMATION MANAGEMENT SIMPLE

The good news is that the FT is publishing a series on "Mastering Information Management"; the bad news is that it will take 12 issues to do it. Isn't there a slight contradiction here - 200 pages of information to help executives already confused by grunting in-brays?

My own experience of dealing with information has provided a fundamental principle: information is needed to make decisions. If information is looked at from the point of view of decision-making, "information users" can start digging themselves out of the pile of largely irrelevant buried on their desks by asking the question, "What information do I need to make those decisions which enable me to reach my targets?" The answer inevitably gives rise to the "80:20 rule": 80 per cent of the information received is irrelevant and only 20 per cent of the information required is available.

The answer should also highlight the other areas that give rise to the mismanagement of information: timing and accuracy. How much information is demanded "yesterday" when no decisions are based on it today, tomorrow or ever? How much information, usually produced from a spreadsheet, is quoted with impossible levels of accuracy? How many of us have seen sales figures forecast to the nearest 0.1 per cent - for 2002? With predictive abilities like that the information provider should have won the lottery.

My series to information users and confused executives would be to clear enough space on their desks for a blank sheet of paper and write on it their targets, the decisions required to meet those targets, and the information needed to make those decisions. If this proves difficult, 12 supplements to the FT aren't going to be much help.

Yours faithfully

David M. Griffiths
West Bridgford, Nottingham

These advantages arguably increase the chances of successful project completion. However, none of the companies in our study claimed that the emergence of ERP systems has reduced project costs (indeed, we find no evidence for this anywhere). Issue number two for managers, therefore, is to understand that, with or without ERP, global IS projects require massive investment.

Business benefits

Issue number three is to establish what business benefits have been and can be achieved through such investments. As projects move towards conclusion in many corporations, this is the issue most under scrutiny at present.

Our research case studies were all self-reported successes but in most of them "success" was not sharply defined. Benefits reported included "improved information", "year 2000 compliance", "specific operational improvements" and a general expectation that future software maintenance costs would be lower.

These may be useful benefits but they surely do not match the scale of investment and resources required to achieve them. For most, it seems, the implementation of a common system has been something of an act of faith (or, at least, attraction) of some yet-to-be-defined but large-scale global management, that benefits will emerge once the new infrastructure is in place, without such a capability in place. We question the appropriateness of such a sure-study, were delictive, and would prefer much more definite responses to the question: "What business benefits have been achieved by these investments?" rather than defining their projects in terms of new systems infrastructure, each of these companies had targeted a specific and compelling business requirement (see the "Targeting global IS initiatives" box).

In one case, the chief executive had identified the globalisation of procurement as a critical lever for product cost restructuring; this company's project was therefore defined as providing the means by which the new function could operate. In the other case the company had an even clearer imperative: it had been told that it would lose its biggest customer unless it put in place the capability to serve that customer in a standard way around the world.

With clear business imperatives, it is not surprising that these two companies were more articulate about their achievements. They also completed their (more limited) projects in much less time than the other companies. And there is one final point of difference: neither used package software as the base for its efforts. We would not want to suggest that there is a real causal relationship here. But promoting to all concerned that this is the "Global Customer Project" or the "Global Purchasing Project" - rather than the "SAP Project" - must help to concentrate the mind.

Global information systems and decentralised cultures do not mix. These IS investments need to be components of phased and targeted plans to achieve a more global corporate mindset.

Reader's letter

Managers and academics have spent most of the 20th century building and perfecting the hierarchical organisation. If we are to believe the press, however, they are now busily destroying it, proposing in its stead "networked", "process-oriented", "learning", "team-based" or "flat-cycle" organisational models (to name but a few).

While the details of these visions vary, common themes can be found. The 21st-century organisation, it is argued, is flat, fast, flexible and focused on core competences, made, empowered teams of knowledge workers reconfigured and continually improving their processes. Managers, the few who are left, that is, "act as coaches and not leaders". Companies to "think globally and act locally". Some even virtual companies, managing a vast network of independent businesses that must all work together to deliver products and services to customers.

But what will find that many vestiges of the traditional hierarchy remain. Standardised jobs, rigid procedures and policies, and a hierarchical chain of command continue to define how much of the work is performed. While many organisations have specialized and delivered, authority and accountability for decisions continues to depend on hierarchical level. And although employees find themselves working in teams and spending a lot of their time at meetings, compensation and incentive systems continue to support individual performance and achievement.

Clearly the hierarchy is not dead. Yet when asked what their companies should look like many managers express strong support for organisational visions of the sort outlined above. The problem confronting these managers, however, is that they cannot sacrifice efficiency for speed. They cannot abandon formal control systems as they empower employees to make decisions addressing real-time customer needs.

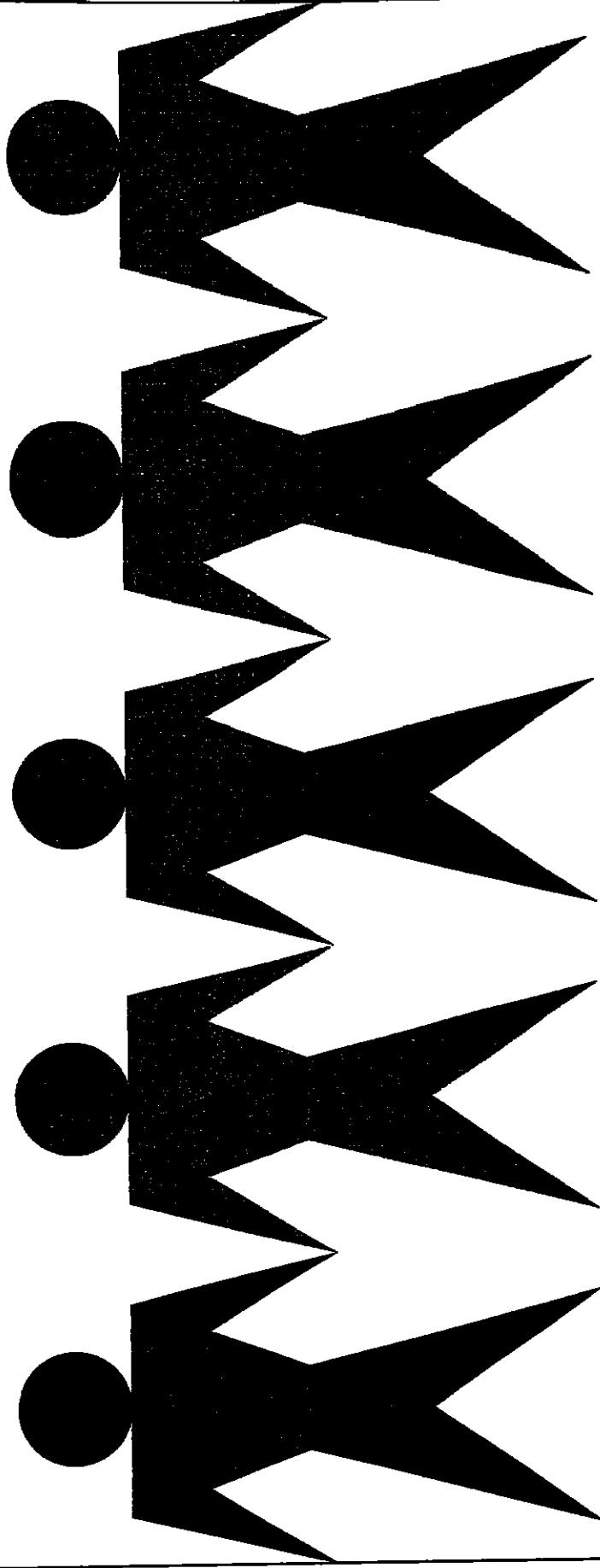
Jack Welch, chief executive of General Electric, summed up this dilemma when discussing the challenges that his company faced as it entered the 1990s. In the early 1990s, he wrote, "we saw two challenges ahead of us, one external and one internal. Externally, we faced a world economy that would be characterised by slower growth, with stronger global competitors going after a smaller piece of the pie. Internally, our challenges were even bigger. We had to find a way to combine the power, resources, and reach of a large company with the hunger, agility, spirit, and fire of a small one."

Percy Barnevik, ABB's chief executive, echoed these comments. ABB is an organisation with three internal contradictions. We want to be global and local, big and small, and radically decentralised with centralised reporting and control. If we resolve these contradictions, we create real organisational advantage.

In the age of the Internet, it is not just large, established companies that are coping with these challenges; entrepreneurs that start-ups are also struggling with the problems that come from scaling up very big very quickly. Consider the success - and very big very quickly - of Yahoo!, Amazon.com and eBay. These three Internet powerhouses have moved from nothing in 1995 to global companies with market valuations of \$38m, \$18m, and \$7m (respectively) on February 1, 1999. While many would argue that the market value is overinflated, no one can argue with the dramatic increase in complexity that these entrepreneurial start-ups face. In fact, a review of the operating expense lines in each of these companies' annual reports provides a glimpse of the infrastructure investments and management expertise that are required to keep up with the rapid pace of growth.

Is history repeating itself?

As timely as it seems, the management allomna depicted in Figure 1 is not new. Descriptions of "hybrid" organisations designed to enable companies to act "big and small" simultaneously were common in the 1960s and 1980s. Interestingly, they were pioneered by rapidly growing technology start-ups in the aerospace and computer industries.



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Is standardised global IS worth the bother?

Summary

Managers in multinationals have long recognised the desirability of standardised global information systems. But it is only in the 1990s that projects to put such systems in place have had much success. According to **David Feeny** and **Geoffrey McMillen**, this is primarily due to better project management; among other things, companies now recognise the need for senior business managers to support such projects and for stakeholders' involvement and expectations to be carefully managed. The emergence of "enterprise resource planning" systems has also helped managers to focus on implementation instead of debating data standards and common business processes. The authors conclude with a discussion of the business benefits. Strikingly, of seven multinationals that they studied recently, only two – which undertook their global IS projects to support specific strategic objectives – were able to articulate substantive benefits.

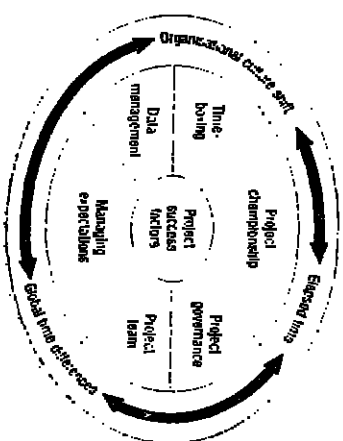


Figure 1: Success factors in global IS projects

For the corporate management of any multinational, the idea of common, standardised information systems (IS) across national subsidiaries and product businesses has long had an intuitive appeal. At the very least, the argument goes, it must be cheaper and simpler to solve the same problem once rather than many times. More importantly, as the world becomes a "global village", the achievement of a consistent and coherent IS platform is seen as imperative. For example, accounts of ABN, which has been widely admired throughout the 1980s, consistently cite its standardised systems base as one enabler of its innovative planning.

It is clear that the efforts required to achieve such standardisation are formidable. Virtually all attempts of the 1970s and 1980s failed as they were on the sheer development of systems that addressed the combined needs of multiple business units – ran expensively and embarrassingly into the sand.

More recently the picture has brightened, with the emergence of sophisticated "enterprise resource planning" (ERP) software from a number of suppliers. It has become the norm for multinationals to adopt such software as the vehicle for global standardisation across business units, as they have been wont.

Targeting global IS initiatives



Geoffrey McMillen, is chief executive of Uberta and vice-president (professional) of the British Computer Society.

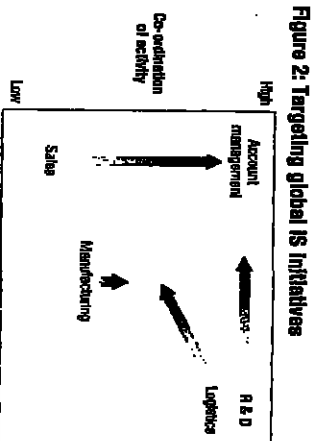


Figure 2: Targeting global IS initiatives

Our evidence suggests that investments in common global IS have most value when they are targeted on specific business lines within the broader agenda of "globalisation". In earlier research we used Michael Porter's "configuration-coordination framework" to facilitate managerial discussion of the most important targets. In the example shown in Figure 2 (of a global electronics business) management concluded that:

- There would be a major business advantage if research and development, which was centralised, could be devoted to create a "close-to-market" presence in each region but close co-ordination across all regions remained imperative to avoid wasteful duplication.
- No value had been added by the centralisation (in the name of globalisation) of the logistics function. It needed to be devolved to the regional level.
- The consolidation of manufacturing from national to regional level had been appropriate. There would be some advantage in increased co-ordination, focused on the transfer of learning.
- While the sales function inevitably had to operate close to the customer, it was becoming essential to establish key account managers to co-ordinate activity with customers who were becoming global.

With these directions defining the implications for IS were relatively straightforward – a common computer-aided engineering (CAE) infrastructure for engineering R&D, groupware-type facilities for account managers, and so on. It was clear to executive management that organisational changes would have to accompany each IS investment.

In pursuit of these questions, we recently studied common IS projects in seven different companies. Six were large corporations – Black & Decker, BOC, Ford, Grand Metropolitan, Shell, Zeneca; the seventh, Thomas Miller, has only a few hundred staff but operates worldwide and is a market leader in its chosen sector of the insurance industry.

In all seven, we studied high-profile projects that involved implementing standard IS support worldwide for one or more major business activities. Five companies had chosen software packages as the systems base, from SAP, J.D. Edwards and MFG Pro. One had decided to take on the standard system already operating in one of its business units; another had committed itself to developing a new system. All had reached a point at which implementation had been successfully achieved in at least one of the target theatres of operation. Their managers identified a number of issues for any manager considering global IS initiatives.

Project success factors

Issue number one is understanding why these projects of the 1990s seem to be so much more successful than their predecessors of the 1970s and 1980s. This is not so much a story of technological advance as one of project management learning. Six factors are crucial to success in any IS project (see Figure 1). These are predominantly managerial rather than technological in nature and recognise that:

- Most "IS projects" are in fact properly postulated as business change projects. They must therefore be visibly championed by senior business line managers who have authority across the domain of change.
- The "project champion" should be part of a wider project governance structure which can ensure the involvement and commitment of all stakeholders affected.
- Project teams need to be multi-disciplinary in nature and staffed by the most able (rather than the most available) people from the business and from the IS function.
- The expectations of all those who will be affected by the project need to be proactively managed to ensure that they understand the nature, extent and timing of change.
- Very few projects are delivered to "green field" sites; most must be designed to connect to a large range of other systems and processes, and so data definitions and data management across boundaries are essential.

Continued on page 10

Connect the dots.

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Green lights all the way to consolidation

Recent months have seen many upheavals within the industry. But the pace is unlikely to falter, with the focus on Japan, says **Haig Simonian**

Pundits predicting an eventful year for the motor industry could hardly have been more right. But even the most self-confident seer barely hinted at the astonishing events of early 1999. Now, only the bravest dare to expatiate on how matters will end.

Some of the upheavals of recent weeks were broadly predictable. Further consolidation among suppliers was a one-way bet. Expecting the uneasy hierarchy of world tyre makers to fissure as Asian manufacturers felt the pinch was almost as obvious.

Even prophesying more mergers in cars and trucks did not require a Nobel laureate. Bob Eaton, co-chairman of DaimlerChrysler, may really have known something was afoot when, at January's Detroit motor show, he forecast a big deal within 90 days. It was, after all, his group's decision to join forces with Daimler-Benz which prompted the merger mania in the first place. Carlos Ghosn, Renault's redoubtable dauphin, referred recently to that transaction as "an electric shock" for other car makers.

Whether prescient or just parous, Mr Eaton was on the button. But few would have expected the first deal of the year to have been the sale of Volvo Cars to Ford. Subject to approval from Volvo's shareholders this

month, that will give Ford an almost unrivalled portfolio of upmarket brands including Lincoln, Jaguar and Aston Martin.

But spending \$6.45bn on Volvo may not be Ford's last word. With more than \$10bn in the kitty even after the deal, William Clay Ford and Jac Nasser, the group's new chairman and chief executive, still have cash to spare.

What might attract them next has been one of the industry's obsessions in recent weeks. Mr Nasser has dismissed reports of interest in Nissan Motor, the ailing Japanese car and truck maker which has become most observers' next take-over target.

Yoshikazu Hanawa, Nissan's president, no longer hides his interest in welcoming a rich foreign partner. A big cash injection from abroad is the most painless solution to Nissan's chronic debt load and sagging sales. Emboldened by its successful new products and greater productivity, Renault has already put its name forward. In January, Mr Ghosn said his group could be interested in up to 30 per cent of Nissan if the price were right. Others have been looking, albeit less publicly.

But the most likely buyer is DaimlerChrysler. The group had until recently eschewed suggestions of

interest, arguing its hands were full implementing its own merger. Subsequent hints, however, from Mr Eaton and Jürgen Schremp, his German opposite number, suggest priorities may have changed.

In February, Mr Schremp said a decision on taking a stake could come within three months. That would raise few eyebrows. DaimlerChrysler has for months been in talks to buy Nissan Diesel, a leading Japanese truck maker.

The failure of those discussions to reach a conclusion has been widely taken to indicate cold feet at DaimlerChrysler. But the more likely answer is that Messrs Eaton and Schremp have shifted their focus from Nissan Diesel to its parent company.

The fate of the Nissan group - whether just trucks or cars, too - is one example of the wider convulsions rocking commercial vehicles. Shares in the dwindling band of independent truck makers have surged after Volvo said it would use Ford's cash to expand in trucks.

Volvo's gaze has now broadened beyond Scania, its Swedish arch-rival, after takeover talks with Investor, Scania's main shareholder, broke down over price. The collapse may have been a



negotiating ploy: Scania's stock rocketed in January after Volvo revealed it had bought 13 per cent in a dawn raid.

Breaking off the negotiations could be a way for Volvo to bring the price down, although the strategy is risky given rumours that Scania has other suitors. Alternatively, Volvo could have other targets. One may be Navistar, the US trucks and engines group, which is still finding its feet in the heavy truck market after a difficult few years.

Mitsubishi Motors could be another object of Volvo's desire. The two companies have an established rapport through NedCar, their Netherlands-based carmaking joint venture. NedCar's future now looks cloudy after Volvo's decision to divest cars. But Volvo's interest in Mitsubishi's

trucks operation may have grown proportionally stronger.

The two groups were working together to market each other's vehicles and studying whether to develop a new light truck range. With Mitsubishi weakened - although not as much as Nissan - Volvo may have spotted a good home for its new-found cash.

Large amounts of money have already changed hands in the components industry this year. Delphi's \$1.7bn initial public offering got off to a flying start, with shares in the world's biggest parts maker jumping comfortably above their issue price. Analysts worried about the danger of further industrial strife after last year's bitter differences between the General Motors subsidiary and the United Auto Workers union might take comfort:

about 20,000 of Delphi's US workers took the opportunity to buy pre-assigned shares - possibly indicating greater harmony ahead.

While the Delphi deal went largely to expectations, there have been no lack of surprises on the supply side. Robert Bosch, Europe's biggest components group, continued its gradual expansion in Asia by taking control of Zexel, the Japanese maker of fuel injection systems and diesel engines. The deal follows Bosch's discreet purchase last year of controlling stakes in a number of South Korean joint ventures.

A few weeks earlier came the \$7bn auction of LucasVarity, the UK-US brakes specialist. After being rebuffed by shareholders on a planned change of domicile to the US, LucasVarity found itself courted by both TRW

and Federal-Mogul as potential partners. TRW produced the winning bid, creating a big new force in components with combined 1998 sales of nearly \$19bn. Together, the new group will link TRW's expertise in steering and suspension with LucasVarity's know-how in brakes and other components.

But Dick Snell, Federal-Mogul's growth-minded boss, made clear his decision to pull out of the bidding would not stop him targeting other components companies if they fit his fast-expanding group. In spite of building up heavy debts to expand Federal-Mogul through acquisitions, Mr Snell remains much favoured by investors. Few think it will be long before he strikes again.

That pause for thought may give smaller parts companies time to move. Last month, Arvin Industries, the

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US shock absorbers and exhausts specialist, made its long-awaited attempt to expand into other areas through an agreed \$276m bid for the Puroator filters business of Mark IV Industries. Not long before, Borg-Warner Automotive, the Chicago-based transmissions group, announced plans to spend \$600m on Kuhlman, a turbocharger specialist.

Not to be outdone, the world's tyre makers have also been busy this year. Goodyear's Samir Gibara started the ball rolling by striking a broad alliance with Japan's Sumitomo Rubber Industries. Widely seen as a takeover via the back door, the complex transaction will create a series of joint ventures in which the US group will clearly have the upper hand.

Barely was the ink on that deal dry than Pirelli and Cooper Tire announced their own link. The two denied the alliance, which creates joint marketing structures in the US and South America, was a reaction to Goodyear-Sumitomo.

But for many observers, it was the first of what will probably be a string of transactions as smaller tyre makers react to growing domination by their larger counterparts as part of the broader motor industry consolidation which shows no sign of abating.

COMPONENTS: EUROPE by John Griffiths

M&A, overcapacity to take their heavy toll

For the successful groups there could be large rewards in exchange for heavy capital investment and technical resources

The creation of DaimlerChrysler, Ford's takeover of Volvo car operations, and other mergers among car makers waiting in the wings have dispelled any hopes among automotive component suppliers of a pause in the relentless process of consolidation in their own sector.

To an extent few in the industry thought likely five years ago, the number of vehicle makers, both car and truck, is reducing to the point where it no longer seems inconceivable that the world industry will comprise just eight or nine main players within the next decade or two.

Europe, with current overcapacity estimated by Price-waterhouseCoopers at 8.7m units - or more than 20 per cent - and still too many national manufacturers, is expected to take the brunt of rationalisation in the next big economic downturn.

Fewer car makers in itself means fewer core components suppliers. But the adoption by big car makers such as Volkswagen of "platform" strategies - building a variety of vehicles from one basic set of engineered com-

ponents - also means fewer, but bigger, contracts for the suppliers with the resources and global reach to handle them.

DaimlerChrysler, just a few months into its existence, is reviewing its entire components supply chain in Europe and North America. Suppliers to the previously separate groups will be expected to work together in pursuit of further efficiencies and cost savings - in particular through increased volumes and stronger suppliers taking over weaker ones in specific component categories.

Five years into its ownership of Rover Group of the UK, BMW is finally rationalising components purchasing for both groups. That £1bn of Rover's £4.5bn expenditure on components is now heading outside the UK illustrates how big an impact changes at the vehicle manufacturer level can have on the components sector. It will not be many months before Ford's takeover of Volvo starts to impact on the Swedish car maker's components sourcing.

For the successful compo-

nents groups, the rewards are potentially great. Big suppliers stand to gain from their heavy investment in developing the increasingly complex component modules which vehicle makers are demanding, such as complete front-end assemblies made up of bumpers, headlights and other integrated components.

Demand for front-end modules in particular is forecast to double over the next five years or so as car makers move to outsource more of the total vehicle and increasingly limit their own role to assembly.

According to Hella of Germany, one of the leaders in the sector, demand for independently-produced front ends will reach more than 2.5m units a year by the end of the decade.

That there has been little let-up in the pace of concentration throughout the automotive sector is evident in the volume of merger and acquisition deals tracked over the past year by Price-waterhouseCoopers in its latest annual study of the sector.

There were 173 such deals within Europe, with a disclosed value of \$8.5bn, although this includes activity in areas such as the aftermarket and retailing. There were 42 involving US compa-

nies merging with or taking over European groups, with a disclosed value of \$5.3bn. The \$43.4bn of deals involving European takeover or merger with US groups, however, is mainly accounted for by the Daimler-Benz/Chrysler alliance. Hundreds more deals embraced the Asia-Pacific, Latin American and other emerging regions.

The European components industry continued to feel the effects of North American expansion. Notable among acquisitions were Federal Mogul's acquisition of T&N of the UK for \$2.25bn and North American engines group Caterpillar's \$1.5bn purchase from LucasVarity of its Perkins diesel engines business. Only last month Meritor Automotive, the US automotive group formerly known as Rockwell, acquired LucasVarity's heavy vehicle braking systems division for \$300m.

The traffic, however, was not all one way between Europe and North America: ITT of the US sold its electrical systems activities to Valeo of France for \$1.7bn, and its braking systems and chassis engineering activities to Continental, the diversifying German tyres group, for \$1.8bn. United Technologies, the US conglomerate, has also put its automotive components business, United Technologies Automotive, up for sale and is likely to attract interest from European as well as other US components groups. It makes a range of products from system motors to braking systems.

Within Europe itself, recent deals have included the incorporation of seat maker Bertrand Faure into Peugeot's components arm, ECIA, for \$1.2bn.

In mid-February, one of the biggest North American-European deals finally went through after a lengthy bid battle between TRW of the US and arch-rival Federal Mogul. UK-based LucasVarity agreed to a 223p-per-share offer from TRW of the US valuing LucasVarity at \$7bn. ● Regional reports, Pages 2-3

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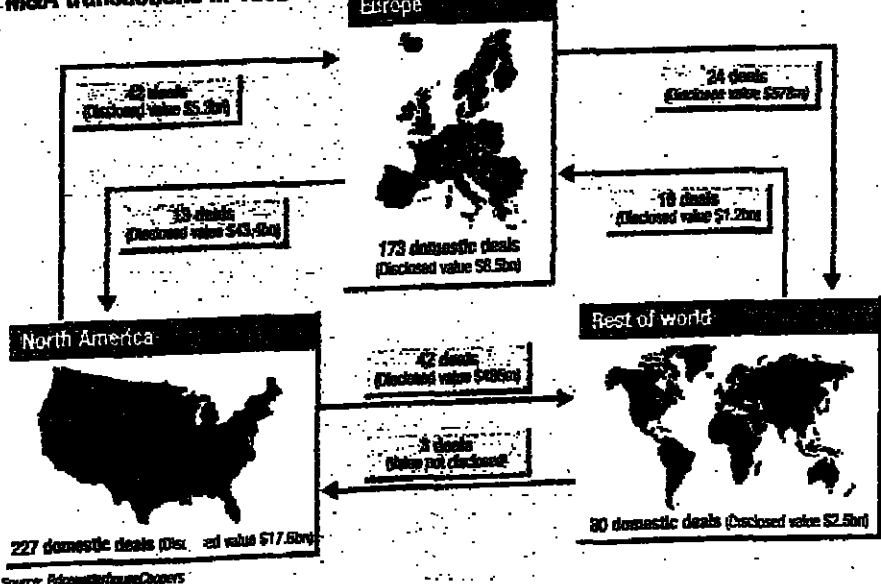
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M&A transactions in 1998



NORTH AMERICA by Nikki Tait in Chicago

Consolidation appears set to continue

Auto units belonging to United Technologies and Allied Signal are among the names expected to be involved in multi-million-dollar deals during this year

Consolidation has been the overriding trend in the US automotive parts industry for several years - and all the indications are that this is likely to remain the case for some time yet.

Amongst the larger deals completed in 1998, for example, Toledo-based Dana Corporation emerged as a "white knight" bidder for Echlin, in a \$3.5bn deal; ITT Industries sold off its electrical systems business to France's Valeo for \$1.7bn, and its brakes business to Germany's Continental for \$1.8bn.

Detroit's Federal-Mogul added the automotive division of Cooper Industries (on top of earlier purchases of Britain's T&N and Chicago-based Fel-Pro) for \$1.9bn, and Borg-Warner suggested that it might fetch a figure in the \$2bn to \$3bn range.

its turbocharger business.

The early weeks of 1998 have been just as lively. A bid battle loomed for Britain's LucasVarity, as both Federal-Mogul and Cleveland's TRW eyed up acquisition possibilities. In the end TRW emerged victorious - without Federal-Mogul putting up a full-blown fight - and acquired the British group for about \$7bn.

Other assets either remain on the market or could be earmarked for sale later this year, including United Technologies' automotive business, and a division of Allied-Signal. UT, for example, confirmed recently that it had received the first bids for the unit and could close a deal by the summer. Analysts have suggested that it might fetch a figure in the \$2bn to \$3bn range.

Meanwhile, players such as Federal-Mogul's Dick Snell and Meritor's Larry Yost have made clear they remain open to acquisition opportunities - although the latter company, which was spun off from Rockwell and recently bought LucasVarity's heavy vehicle braking systems unit for \$235m, has suggested that it would like a "digestion" period first.

But, within this broad trend, both analysts and industry players think there are nuances developing. Much of the initial consolidation was driven by changes instigated by the original equipment manufacturers (OEMs). As car and truck makers sought to simplify their supply arrangements and squeeze out costs, they became anxious to deal with a smaller number of

companies on a broader, international basis.

Accordingly, many of the larger "tier one" suppliers - or companies which aspired to be in this class - sought to broaden their product offerings and establish networks outside their home country.

But, increasingly, many OEMs would like to outsource not just the supply of components but whole "modules" - where suppliers have already assembled dozens of parts into basic units, such as dashboards. The automaker then bolts together a simplified number of parts. "Now customers are looking for more than just global supply of components. They're looking for modularity," says Joseph Magliocchetti, Dana Corporation's newly-promoted chief executive. That, he suggests, is already

changing the nature of the consolidation - and may, in some cases, lead to more in the way of co-operative ventures and allied manufacturing arrangements, rather than all-out acquisitions.

Other observers think that suppliers will ease off, not least because of the sheer number of deals done recently, and the need to digest and reorganise recently-acquired assets. But that, in turn, could simply mean that the spotlight focuses elsewhere.

"Some companies are bumping up against what is practical to put together, and still sorting out what they've bought," says Tom Evans, head of Tenneco Automotive. But, he adds, there could be more activity to come in second-order areas such as heating and ventilating products and emission controls, and also amongst

some of the sub-suppliers, who sell materials and the like to the bigger players.

The question of how tolerant the OEMs will be of this process is a moot point. While they were initially anxious to see suppliers consolidate and simplify their buying arrangements, many parts companies think that the pace of change may have taken the big car and truck makers by surprise. Even companies which have led the move to more "co-operative" supply relationships - such as Chrysler - are still said to do a fair amount of "shadow engineering" to ensure that "power shift" is not too extensive.

Finally, there is the question of what impact the spin-off of GM's parts business, Delphi Automotive, and a possible similar separation of Ford's Visteon unit may

have. The GM divestiture is already under way, with a minority stake floated on the stock market and a full spin-off set for later this year. Timing of the Ford unit is less clear, but such action seems unlikely to occur before 2000.

Either way, rival suppliers are watching closely to see whether such moves open up supply opportunities, or create new effective competitors. The Delphi situation is viewed by many as particularly interesting, as GM attempts to juggle its need for cost-efficiencies with a simultaneous desire for more harmonious labour relations.

"This industry has changed more in the past five years than in the previous 20," says Mr Evans. "And I think it'll change one more time in the next five years."

PROFILE
DELPHI

Spin-off may provide more opportunities in supplies

In a process which went without any major hitch and was generally applauded by analysts, Delphi Automotive Systems, the world's largest auto parts maker and now one of the biggest US companies, made its stock market debut last month.

A minority stake in the Michigan-based group was sold to investors, by way of an initial public offering at the beginning of February.

The 100m shares, around 17.7 per cent of the entire equity, were priced at \$17, at the upper end of the range originally indicated.

This raised approximately \$1.7bn, money which will be used for general corporate

purposes. General Motors, Delphi's parent, will distribute the remaining 465m shares to holders of GM stock later this year - at which point its parts-making arm will officially be a separate company.

Delphi is by no means the first business spun off by GM.

In recent years streamlining efforts at the world's largest automaker have led to the divestiture of the likes of Detroit Diesel and Electronic Data Systems. A month ago, American Axle, a much smaller collection of former GM parts plants, also made its debut on the stock market - although with less initial success.

But, by most measures, Delphi is a significantly larger divestiture than any of the previous sales or spin-offs.

Its annual revenues are over \$28bn, more than twice the size of Goodyear Tire, for example, and almost double those of Bill Gates' Microsoft. It employs around 307,000 people worldwide.

A good portion of its operations are also spread globally. Nearly 60 per cent of its employees and about 30 per cent of its manufacturing facilities are outside North America. About 28 per cent of 1997 sales came from products manufactured overseas. Products, too, are spread

from chassis and steering-based equipment, through to a substantial business in the growth area of automotive electronics, audio and communications.

Most analysts think the Delphi spin-off will be good for GM. A high degree of vertical integration has been cited as one factor holding back margins at the carmaker.

The ability to introduce even more competition into supply arrangements over time should also help to improve returns. In addition, working capital at GM is expected to increase significantly - by about \$2.7bn - once the spin-off is complete.

In pressing ahead with the reorganisation, its formerly-splintered parts operations has become a cohesive and profitable business. GM has also been ahead of its big Detroit-based competitor, Ford, which has moved to split out its components interests as a separate operating unit under the Visteon name.

Both competitors and analysts agree that Visteon

lags Delphi in establishing an operating strategy, independent of its existing parent. The expectation is that Visteon, too, will eventually be spun off, but probably not this year.

If the separation is good for GM, Delphi, too, has been stressing the advantages. It has argued that the ability to grow non-GM business will be "significantly enhanced" once it is fully independent.

"Other vehicle manufacturers have been, to varying degrees, reluctant to purchase components extensively from a supplier owned by GM... we believe this is attributable in part to concerns that the related profits would strengthen GM and that GM might obtain access through Delphi to confidential information regarding the other vehicle manufacturers' vehicle designs and manufacturing processes," Delphi commented in the course of the IPO.

Nevertheless, building up non-GM business will be one of the big tests over the next few years. Since 1993, this has increased relatively

modestly, from about 13.3 per cent to 18.3 per cent in 1997.

Improving margins will be another. Last year, after-tax income fell to \$68m from over \$1.3bn in the previous year, even before the impact of charges and the debilitating work stoppages over the summer, with the net income margin standing at just over 3 per cent.

According to J. T. Battenberg, Delphi's chief executive, the current objective is to increase this by about half a percentage point each year for the next four years. This would then raise the margin to about 5 per cent by 2002.

Finally, there are the labour issues. Delphi has had difficult relations with its unions in the past, including the United Auto Workers, which represents the largest single group of employees. The UAW has been publicly opposed to the spin-off, and labour disputes have cost Delphi more than \$900m over the past two years. National contract talks also loom later this year.

Nikki Tait



Fact-finding: J. T. Battenberg (right) and Jack Smith, GM chairman, look at wire harnesses made at the Delphi Pacard Electric plant in Brookhaven during an annual tour of subsidiaries. AP

JAPAN by Alexandra Harney in Tokyo

Close links a barrier for predators

Dwindling demand and excess capacity serve up some tempting rick pickings

When Goodyear and Sumitomo Rubber formed a strategic alliance to create the world's largest tyre company last month, the first question on investors' minds was: "Who next?"

The deal underlined the growing sentiment among US and European car manufacturers that the Japanese components sector is ripe for the picking. Dwindling demand for cars has squeezed parts manufacturers, leaving the industry with shrinking revenues and a lot of excess capacity.

There is little doubt that Japan's car components sector is heading for consolidation. But what is much less clear is how foreign companies will negotiate the substantial obstacles to doing business - namely, the highly competitive and closely-guarded relationships between Japanese automakers and their loyal suppliers.

The irony is that these mutually-supportive ties were the driving force behind growth in the industry's \$7.700bn annual revenues until recently.

Starting in the 1960s, several Japanese carmakers invested in a group of small, local manufacturers through direct equity investments and loan guarantees. Toyota, Nissan, and Honda each developed a circle of suppliers which provided more than 70 per cent of parts on a just-in-time basis.

The collapse in car demand in Japan and Asia since 1997 has revealed the inherent structural inefficiencies in this system, however. The 12.6 per cent decline in car sales - from 6.72m units to 5.86m in 1998 alone - has forced a sharp contraction in earnings at parts makers which depend heavily on carmakers' domestic production. Calsonic, an air conditioner, radiator, and muffler manufacturer owned 33.3 per cent by Nissan, recorded a 67 per cent decline in profits, from

¥1.3bn to ¥424m, on turnover of ¥75.92bn in the last financial year.

Yet, just as the downturn in car demand has widened the divide between strong and weak automakers, a gap has emerged between the components manufacturers as well.

Denso, the industry leader and the world's fourth-largest parts manufacturer, saw only a 2.7 per cent decline in net earnings in the year to March 1998, from ¥51.15bn to ¥49.77bn on turnover of ¥137.13bn. One of the main reasons for its success is its affiliation with Toyota.

Japan's largest carmaker: companies in the Toyota group own more than 30 per cent of Denso.

In between is a motley group of more independent parts makers supplying several carmakers, including Akebono Brake, the brake manufacturer. Kayaba Industry, which makes shock absorbers, and Riken, the piston ring manufacturer.

But even these companies have not been able to avoid the collapse in the market. Analysts say that Japanese parts makers' dependence on domestic carmakers - in the form of supply relationships as well as loan guarantees and other financial support - has been the largest factor behind this decline. Calsonic, for example, depends on Nissan for over 70 per cent of sales in Japan.

The industry exported only 21.4 per cent of total output last year, compared with 28.2 per cent exported by a sample of US parts makers, according to Morgan Stanley Dean Witter.

This has been compounded by high fixed costs in Japan, which have climbed to record levels in the past two years, according to Christopher Redl, industry analyst at Morgan Stanley Dean Witter. At the same time, companies have been expanding capacity - a risky move in



Quiet times in Tokyo showrooms bring bad news for the country's components sector, too, as sales decline. AP

view of the expected decline in domestic demand.

"The production system was efficient when it was all sales-oriented and the companies were better off," says Mr Redl. "Now they are being forced to meet the financial challenge to remain profitable during a

Tokyo encourages temporary closure rather than capacity cuts

downturn as we're seeing now. The biggest problem is that you can't fire anyone in this country."

Japanese labour laws make it far more expensive to sack workers or make them redundant than to keep them on the payroll. Although some manufacturing industries - most recently, the truck and petrol sectors - have applied for government subsidies to cover these costs, the government has encouraged companies to close facilities temporarily rather than reducing final production capacity.

The *keiretsu* system (families of interlinked companies) also allows companies to delay significant restructuring because it encourages

managers to adhere to group strategy, analysts argue.

Peter Boardman, of Warburg Dillon Read in Tokyo, points to the example of Tochigi Fuji Industries, a small, diversified parts-maker affiliated with Nissan Motor, located north of Tokyo. Tochigi Fuji makes slip disks used in car wheels, and has ample cash-flow to support a tie-up with another parts maker. But the company has insisted on protecting its relationship with Nissan, which is slashing production levels in expectation of its sixth year of losses out of the last seven.

"Now, even with profits declining, they're just not doing anything. It is like they're waiting for Godot," says Mr Boardman.

But there are indications that change is in the air. Nissan has loosened its hold on several of its primary suppliers in recent months in an effort to boost cash-flow and reduce its interest-bearing debt. It has sold shares in Ikeda Bussan, Unisia JECs, and Kinugawa Rubber Industries to companies outside its *keiretsu* - and has even sold shares in its affiliates to groups associated with Toyota Motor.

The deals, while hardly on the scale of General Motors' move to sell Delphi Automotive Systems, could be the harbinger of things to come.

SOUTH AMERICA by Mark Mulligan in Santiago

Brazilian devaluation brings out calculators

New and expanded investments are reassessed as the continent feels a wind of change in the biggest market

Recession and heavy financing costs have spoiled the party for some car-makers and components manufacturers planning new or further investments in South America, although the long-term view remains that the region offers exciting prospects for growth.

Plant closures, production cuts and project delays in the lead-up to, and since, the devaluation of the Brazilian currency have thrown into question some forecasts. However, analysts are sticking to predictions that the country will lift light vehicle capacity from 2m units a year now to 2.5m by next year and 3.5m by around 2003, reflecting the some \$12bn of foreign investment into the region in the last few years.

With members of Mercosur - the free trade zone encompassing Brazil, Argentina, Uruguay and Paraguay, with Chile and Bolivia as associates - agreed in December to cut tariffs on imported vehicles to 15 to 33 per cent, pressure is mounting for some production to find new markets.

Adding to this pressure is a big downturn in domestic consumption in Brazil and Argentina, by far the most important South American markets in terms of production and sales.

Some industry officials say the weaker Real may serve to make Brazil, which relies largely on sales to Mercosur, more competitive with Asia as an exporter of vehicles and parts to the US and Europe.

"Brazil, with its currency pegged to the dollar, hasn't been as competitive as other emerging markets - but this could now change," says Brian Babyak, head of communications for Latin America at Delphi, the components manufacturer recently spun off from General Motors.

Luis Martinez, head of Latin American studies at S&P DRI, says the Brazilian devaluation will also have a direct impact on Argentina,

whose currency is still pegged to the dollar. "Not only are Brazilian automotive parts becoming much cheaper than imports, but cheaper also inside the Argentine market," he said.

This, he feels, will further squeeze Argentine producers, which are often second-tier, or aftermarket, suppliers selling to markets such as Brazil and Venezuela, where many cars are more than 10 years old.

Meanwhile, first-tier, or direct-to-maker, production, is concentrated in Brazil, where international giants such as Delphi, Allied Signal, Valeo, TRW, Magneti Marelli, Bosch, Siemens and LucasVarity battle for market share.

Delphi, with nine fully-owned plants and three joint ventures in Brazil, two plants in Argentina, two joint ventures in Venezuela and a technology centre now being built near São Paulo, is one of the longer-established manufacturers in an industry which last year recorded sales of \$15bn in Brazil alone.

With duty on imported components now at 14 to 18 per cent, and the arrival of more and more international automotive groups to challenge VW, Fiat, General Motors, and Ford - which together still account for more than 85 per cent of production in Mercosur - parts makers are being called on to produce locally and play a bigger role in design and development of vehicles to help cut costs.

"What we call integrated production is now a very clear trend in Mercosur," says Mr Martinez.

At the new GM plant being built in Rio Grande do Sul, for example, a small group of suppliers will set up their own factories around the assembly plant. Chrysler will also have its suppliers positioned around the periphery of its new plant in the southern state of Paraná. At VW's bus and truck factory in Rio de Janeiro state, parts makers have been

bought inside to assemble modular units around the main production line.

This increasing emphasis on logistics has added impetus to a period of frenetic joint venture and takeover activity between multinational and local components makers. According to a report late last year by the Economic Intelligence Unit, by 2000 all but a handful of first-tier components groups selling directly to carmakers will be foreign-owned, with the actual number of suppliers falling from about 500 now to 200 to 300.

Typical of this consolidation has been Magneti Marelli, the Italian group, which in 1997 took control of Copaf, one of Brazil's best-known parts makers. LucasVarity, the UK manufacturer recently the subject of a \$7bn deal with TRW of the US, is taking over Freios Vargas, Brazil's biggest brakes maker, and Hayes Lemmerz International has agreed to lift its stake in Brazilian wheelmaker Bor-

lem Empreendimentos. "Autoparts makers in Mercosur - mainly Brazil and Argentina - have been going through a process of purification," says Mr Martinez. "In the last three or four years a lot of the medium-sized and most of the small companies have been disappearing, leaving just the middle-sized and big ones. And a lot of these have since been involved in mergers and acquisitions."

He says the dominant players are now sorting themselves into three groups: new investors looking to position themselves in the market; more established companies such as Valeo - which claims 80 per cent of the 4.1m units a year headlamp market in Mercosur - considering a full or partial withdrawal from Latin America; and manufacturers taking advantage of the regional downturn to consolidate through acquisitions and joint venture.

"This third group is looking towards recovery in Mercosur in the long term," says Mr Martinez.

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24/11/2015

PROFILE
VALEO

Healthy appetite remains after a \$1.7bn purchase

For years, the biggest takeovers among automotive suppliers have been one-way affairs as US giants have picked off smaller, often European, rivals. Recently, however, the tide has turned as leading Europeans have cast their gaze across the Atlantic.

Two of last year's biggest deals involved European suppliers paying almost \$4bn between them for the components businesses of ITT Industries. One of the buyers was Valeo, the fast-growing French components group, which spent \$1.7bn on ITT's auto electrical side.

After steering the biggest takeover of his 12 years at Valeo's wheel, Noël Goutard remains as keen on takeovers as ever to fuel his group's inexorable growth. Over the past five years sales have climbed by an average 15 per cent a year, "and we've been able to grow profits faster still". While half the increased turnover has come organically, acquisitions have made up for the rest.

Mr Goutard will not hint where his next target might lie, nor quantify the savings

expected from integrating ITT's businesses with Valeo's own. "Depending on the deal, we look to a two- to four-year payback. In this case, it will be the longer end," is all he will give away. He is ready, however, to indicate the conditions any takeover must meet to satisfy Valeo's requirements. "We have four main businesses: thermal, clutches and transmissions; electrical and electronics; and the aftermarket. From these four centres we strive to enlarge the perimeter of our expertise."

While Valeo would be unlikely to expand into an entirely new field it will consider just about anything within its four core competences. Mr Goutard would be all the more enthusiastic if the target filled geographic gaps or added complementary products to enhance the group's ability to make entire systems, rather than just parts.

Such a sure-footed approach to growth explains Valeo's rise from a manufacturer of car heat exchangers into areas such as air conditioning and,

latterly, electronics. Similarly, its know-how in mechanical anti-theft devices has blossomed into broader expertise in entire door systems.

Electronics features high on Mr Goutard's wish list. "The car is going to be electrified 100 per cent, and Valeo is going to be part of it," he says. Developments on the horizon include a move from 12 volts to 42 volts to meet the insatiable needs of future vehicles. Any remaining belt-driven devices, such as pumps and compressors, will be electrically driven before long, he predicts. Ultimately, even intake and exhaust valves will go this way.

But while high-tech parts, where entry barriers inhibit newcomers, top his plans, commodity items are not excluded. His preference is manufacturers with high volumes, which could make even low margin components profitable when subjected to Valeo's cost cuts, or for acquisitions offering synergies with other group products.

Even plastics – increasingly dominated by big chemicals companies



Noël Goutard: "We can squeeze costs better than most"

moving downstream – could be of interest, he hints. Expertise in plastic mouldings is necessary when linked with existing Valeo products, such as lighting, air conditioning or interior trim to provide complete systems.

Focused thinking has made Valeo a firm favourite with industry analysts. "Our positive fundamental view of the company remains unchanged," say Nicolas Hirth and Greg Melich at Morgan Stanley Dean Witter in London. But brokers' buy notes have been thinner on the ground lately. "Our concern is that pressure on suppliers from car producers remains intense," notes Camilla Darwin at J.P. Morgan in London.

Analysts reckon Valeo, like other suppliers, faces three main risks:

● Continued downward pressure on prices from

vehicle makers;

- Growing competition from Delphi and Visteon, the massive, and maybe revitalised, giants of the business;
- Dangers of a generalised downturn in vehicle demand this year.

Mr Goutard appears sanguine on all three fronts. On price pressure, he argues Valeo has shown it can squeeze costs better than most. "We have been able to cut costs faster than has been dictated through the pressures of decreasing prices. Restructuring is a way of life at Valeo. We have rationalised or regrouped at least 10 plants a year."

He is as relaxed on the threat of tougher competition from rivals, such as Delphi and Visteon now they are throwing off the shackles of their parent companies. The world's two biggest suppliers are chasing business much more aggressively to distance themselves from General Motors and Ford, their respective parents. Mr Goutard, by contrast, sees Delphi's flotation and Visteon's likely follow-up as opportunities, not threats. "Delphi and Visteon cannot continue to monopolise supplies to their parent companies eternally," he says.

As to the state of demand, Mr Goutard is upbeat about Valeo's main markets. "The one factor you want to watch is interest rates. As long as people think money is free, they will buy cars."

Haig Simonian

WORLD TYRE INDUSTRY by John Griffiths

Countdown to the endgame

Goodyear's chairman gives his thoughts on the direction the sector is heading after his deal with Sumitomo Rubber



Samir Gibara now heads the industry's undisputed colossus AP

As Samir Gibara, chairman of Goodyear Tire and Rubber, sees it, the endgame for consolidation of the world's \$75bn world tyre industry is starting to roll into sight.

"Seven to 10 years down the road I think you will see the world tyre industry basically in the hands of three or four global players," he says.

Mr Gibara was speaking in New York, in an interview with the Financial Times, after cementing a deal moving the goalposts for the entire industry.

Goodyear has formed a "global alliance" with Sumitomo Rubber Industries, Japan's second-largest tyre manufacturer. In reality, it is a takeover by Goodyear in all but name. Of the six joint ventures created by the deal, four are under Goodyear's majority control. Only in Japan are two joint ventures – one dealing with the original equipment market, the other with replacement tyres – under a Sumitomo majority holding, in a face-saving exercise likely only to postpone the day that Goodyear takes full control.

The alliance has had the effect of breaking Goodyear free of its years-long battle with Michelin of France and Bridgestone of Japan for leadership of the industry. Throughout the 1990s each has had sales of \$12bn to \$13bn, their places in the pecking order changing with even minor market or currency shifts.

Goodyear is now the industry's undisputed colossus. The \$2.5bn of Sumitomo's \$3.9bn annual tyre sales being brought into the alliance lifts the new grouping's sales to nearly \$18bn and takes Mr Gibara a big step towards his goal of turning Goodyear into a \$20bn to \$23bn turnover entity within four years.

The implication of Mr Gibara's endgame prediction is that the industry's second tier of major players, notably Continental of Germany, Pirelli of Italy, and Yokohama of Japan, will be forced into combinations of their own – or even be swallowed up by Goodyear, Michelin, or Bridgestone.

Even the largest, Continental, has tyre sales only about one-third those of the smallest of the "big three" players. Pirelli's tyre turnover is under \$4bn, and Yokohama's, \$3bn-plus. Pirelli has already tried, unsuccessfully, to merge with Continental – in the early 1990s – Mr Gibara

points out.

As for the rest of the industry, the odds against emerging market players such as Korean tyre makers, which until even recently appeared to stand a real chance of making inroads, have lengthened to the point where they, too, have little prospect of long-term independence, says Mr Gibara.

Not surprisingly, the view is not shared by Hubertus von Grunberg, Continental's chief executive, or Pirelli's chairman, Marco Tronchetti Provera.

Both maintain that they have a viable future follow-

'The smaller players will be unable to match global reach'

ing a broadly similar strategy: developing and manufacturing technologically advanced tyres – capable of commanding higher prices and good profit margins – in western Europe, while meeting demand for cheaper, volume tyres from plants in eastern Europe or other low-cost centres of production.

At the same time, they would forge partnerships or alliances with other tyre makers in specific areas where a benefit could be identified.

Currently there is little to suggest that either Mr von Grunberg or Mr Tronchetti

Provera are wrong. Both Conti and Pirelli are making good profits, and their reputations stand high as makers of premium tyres on at least a technological par with the products of the "big three".

Underlining the strategic thinking, Pirelli is forming an alliance with Cooper Tire and Rubber of the US, the world's eighth-largest producer. "We have been negotiating this for almost a year; it is part of a strategy which will allow Pirelli to remain an independent global player," stresses Mr Tronchetti Provera.

In late February Pirelli also signed a deal to collaborate on run-flat tyre development with Michelin.

"You have to separate the psychological effects of the Goodyear/Sumitomo deal from the physical – the tyre is global, but markets are still different. There is still room for companies like Pirelli to be a global player, with maybe a smaller share but higher profits and benefiting from alliances of the type we are forming with Cooper."

Mr Gibara, however, says that the smaller players increasingly will be unable to match the global reach, purchasing power and other scale economies of the large-scale players.

"For example, in 1997 our Asia plants supplied no tyres to Europe or the US; this year they will supply nearly 3m. It's the same with Latin

Continued on Page 4

SOUTH KOREA by John Burton in Seoul

Weaklings fall to the strong

Foreign companies seize the chance to snap up quality manufacturers as painful restructuring begins

It has been a brutal year for South Korea's highly-fragmented car components industry, which consists of hundreds of small and financially weak suppliers.

Domestic car sales fell by 50 per cent last year during the country's worst recession in 45 years. More importantly, the number of Korean carmakers that kept component sub-contractors in business has dramatically shrunk from five to two during the past 15 months in an industry plagued by overcapacity.

The car components industry is now heading for a period of painful restructuring. Hyundai Motor, which bought insolvent Kia Motors last year, has embarked on a rationalisation programme among parts suppliers for the two carmakers.

The consolidation process has not been without conflict. Car parts workers have gone on strike to get back

pay owed by carmakers that have gone out of business.

Samsung Motors is demanding that its only car model, the SM5 saloon, be kept in production once its fledgling car business is taken over by Daewoo Motor, although Daewoo makes a similar model. The reason? Samsung wants to guarantee jobs for the network of sub-contractors it established.

The dispute has delayed Daewoo's takeover of Samsung Motors.

However, the woes of the car parts sector have provided an opportunity for foreign companies to acquire some of Korea's biggest component manufacturers, which have a good reputation for product quality. Analysts believe that Korea could emerge as a regional manufacturing base in Asia for foreign component producers.

One recent example was

the decision in January by Ford Motor of the US to acquire majority control of Hella Climate Control (HCC), a maker of automotive air conditioning and heating systems, through Ford's Visteon car parts subsidiary.

Ford doubled its stake to 70 per cent in HCC, which was established in 1986 as a joint venture. It is a sub-contractor to Hyundai, Kia, Mazda, General Motors, and Ford.

"This acquisition better positions Visteon to deliver leading-edge climate control systems to customers around the world, especially in the Asia-Pacific region," says Ford. This followed Ford's purchase of HCC's operations in Canada.

Analysts say Ford's investment in HCC could serve as a model for the revival of the Korean car components industry since foreign companies, such as Ford, have

the financial resources to buy and merge suppliers, which would lead to greater cost efficiency and improve technical capability.

Foreign investors in the car parts industry are also attracted by the size of the domestic market. Although Korean carmakers have recently suffered a severe downturn, they are still expected to maintain production capacity of 3.5m vehicles annually, which is the second-largest output in Asia after Japan.

More foreign takeovers are likely. HCC was just one of several car component companies controlled by the Hella Group, which went bankrupt in December 1997 because of large debts.

Rothschild, the investment firm, bank, is now supervising the sale of other Hella businesses, including Mando Machinery, Korea's biggest car parts supplier.

Mando has already sold its

half-stake in Korea Automotive Motor Co (Kamco), which manufactures small motors used in power window systems and air conditioners, to its German joint venture partner, Bosch, for Won35bn.

Analysts expect that Mando will sell several of its business divisions separately to foreign and domestic carmakers. Ford is mentioned as a possible buyer of its joint venture Hella Electronics.

Despite the financial problems at the parent Hella group, Mando's operating performance is considered strong because of its leading position in Korea's car parts industry.

D.K. Yang, automotive analyst at ING Barings in Seoul, estimates component makers will enjoy sales growth of up to 30 per cent this year as domestic car sales recover and exports of car parts increase.

SOUTH-EAST ASIA by Sheila McNulty in Kuala Lumpur

Fight for survival

Financial crisis has seen manufacturers move into exports

Before south-east Asia's financial crisis hit, domestic auto component makers in much of the region had no real reason to concentrate on building export markets. Demand for vehicles in Malaysia, for example, had been growing as much as 30 to 40 per cent annually.

Syed Hafiz Abu Bakar, general manager of auto parts at UMW in Malaysia, which makes filters and supplies shock absorbers, said the attitude had long been, "Why bother finding a new market when you can't even keep your local market happy?"

He says: "Year on year we had been struggling to keep pace." So when demand suddenly dropped, as recession swept through the region, car sales in Malaysia, Indonesia, Thailand and the Philippines plunged up to 85 per cent, leaving many component makers fighting to survive.

While those car manufacturers which could afford it did their best to keep their component makers in operation with advance payment for supplies and other benefits, others pressured them to cut prices by up to 10 per cent to relieve their own burdens. Some component makers found themselves squeezed on all sides.

The bigger component makers in each market, which still have the resources to commit, are using the opportunity presented by the slowdown to institute some long overdue changes in the way they do business. Although they resisted cutting prices ini-

tially, Mr Hafiz says that once it became clear that the crisis was going to be protracted, component makers began to accept lower margins.

To afford that, UMW stepped up efforts to reduce costs without reducing quality. It began buying parts locally or from cheaper markets. Instead of buying paper for filters from Japan, for example, it bought them from South Korea. And if a component came in two parts it tried to buy it already assembled. Perhaps most importantly, it began tapping into the export market at a time when the domestic currency was weaker.

So far the strategy seems on track, but it has not been as easy for all component makers to switch to exports. A regional automobile analyst says. Many goods did not meet the quality standards achieved in the US and Europe. Other manufacturers did not have the credit lines or foreign partnerships needed to survive. In Thailand, more than a handful of small to medium local companies without foreign affiliations headed in the direction of bankruptcy.

"They were weak to begin with and had no help from the outside," says Michael Dunne, president of Automotive Resources Asia. Some of those in joint ventures with Japanese companies found themselves being bought out, or at least selling majority ownership, while major global OEM (original equipment manufacturers) also moved in to buy assets cheaply.

Fun Wob Peng, general manager of business development in Auto Parts Holding, Malaysia's largest auto component maker, says the company, which produces a range of components, from seats to radiators to shock absorbers, is now trying to strike the right balance between the domestic and export markets, as well as between the automotive and non-automotive markets.

It does not want to be hit in the future as badly as it was when auto parts sales dropped 40 to 50 per cent last year, so it has put a new emphasis on developing future as it seeks to increase automotive part exports and improve their competitiveness.

In Indonesia, Mr Dunne says capacity is five times the demand. The regional crisis has hit its economy – and its automobile industry – hardest. Last year 58,121 vehicles were sold there, down sharply from 291,807 in 1997. This year only 75,000 units are expected to be sold.

The Philippines, which had a far smaller market than Indonesia, Malaysia and Thailand to begin with, has been hurt the least, Mr Dunne says.

Its pre-crisis volumes were far lower, with 162,096 vehicles sold in 1996, and they have fallen far more gradually – to 144,637 in 1997 and 80,230 in 1998.

In fact, as global OEMs move into the region, the Philippines, with its solid infrastructure and base of engineering talent, is being put under the microscope. "It has all the ingredients to do well," Mr Dunne believes.

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OVERVIEW by John Griffiths

Western investment rewarded with growth

Storm clouds have gathered over world car makers during the past year. But, as correspondents report on these pages, there is some sunshine to be found

The scary ride car makers have been enduring over the economic bumps of Asia, South America and Russia smooths out uncannily through another region of emerging car markets.

"Central and eastern Europe outside of Russia is remarkably stable; it says a lot for being plugged into the side of western Europe," says Andre Shortell, global automotive industry specialist with Citibank.

During a year which has seen financial collapse in Russia, and plunging car sales in the South American and Asia-Pacific countries in which manufacturers have been investing heavily, the automotive industry and markets of central Europe – the Czech Republic, Hungary, Poland, Slovakia, Slovenia, and Romania – have been enjoying a period of sustained, and in some countries still spectacular, growth.

Most analysts suggest that

modest growth will be sustained this year, even though the west European markets to which the region's cars increasingly are being exported are widely expected to undergo a modest downturn.

In 1997, sales of cars and light commercial vehicles across the entire region of central and eastern Europe, including Russia, CIS, and Balkans states, saw a 21 per cent jump to 2.2m units. By the end of last year growth is estimated to have slowed sharply as a result of the problems in Russia and immediately neighbouring states. However, with the European Bank for Reconstruction and Development showing economic growth in the central European states in the range of 3 to 5 per cent, the coming on stream of new car plants such as General Motors' Opel facility at Gliwice, near Krakow in Poland, and expansion of dealer networks by

the industry's main players has meant further sharp sales rises in those countries benefiting most from western inward investment.

Poland, with new car sales of well over 500,000 units a year, now accounts for around 24 per cent of the region's sales and has overtaken Belgium in market size, according to Elaine Hardy, project director for consultancy Harbour Wade Brown's study of car distribution in central and eastern Europe.

But there is still plenty of room for further growth, with big disparities in the levels of car ownership between countries. For the entire central and east European region, the overall car population is now estimated by Harbour Wade Brown at 45m, a rise of 4m since the past two years and representing 110 cars per 1,000 population compared with 450 per 1,000 in western Europe.

While some countries, such as

Slovenia, now have car/population ratios close to the European average – in Slovenia's case 380 per 1,000 – Russia has only 115 and, at the bottom of the pile, Albania a mere 23.

Of the 35 main manufacturers active in the region, most now have national distributors for each of the main markets in central Europe and the Balkans. Altogether more than 5,000 dealer outlets are now open in the six central European states, more than half of them representing western brands.

The big beneficiary of automotive activity remains Poland, which now accounts for almost half of inward automotive investment in the region. The reasons are not hard to find. The economy overall has been growing at a healthy rate, the current 3 per cent representing a slight slowdown from previous levels.

General Motors, Fiat, and

Daewoo, the country's main industry players, are enjoying low costs – workers at the showcase Opel Polska receive 15 per cent of their counterparts' wages at Opel plants across the border in Germany. Workforce tend to be young, and both education and productivity levels are high.

The Opel Polska plant is already scheduled for its first phase of expansion next year. Fiat is bumping up against capacity limits, and some industry observers suggest that it may not be long before Fiat invests in more in central or eastern Europe, although not again in Poland to avoid having too many eggs in one national basket.

If there is a question mark over a manufacturer it relates to South Korea's Daewoo and extends to its Czech Republic, Ukraine and other regional plants as well as Poland.

Daewoo has expanded rapidly throughout the world and is not yet making the sales or financial returns it hoped from its investments in central and eastern Europe.

Its Polish-produced Tico is a regional best-seller in the cars sector, but its light commercial vehicle operations remain more problematical, while a joint venture with AvtoZas in the Ukraine to produce Tavrta models – the largest single foreign investment in Ukraine – has already seen production cutbacks because of poor sales.

While not present in Poland itself, Volkswagen – now undisputedly Europe's biggest manufacturer – can only be pleased with the outcome of its ventures into the region. Skoda, once the butt of western consumer jokes, has been turned into one of the industry's bigger success stories.

With its products now based on

VW "family" platforms, and after several billion dollars of investment in the Mlada Boleslav facilities near Prague, its cars are finding willing buyers throughout Europe. The Skoda plant has literally run out of capacity, and demand is such that VW is now looking at its plants in western Europe as possible sites at which to add more Skoda production.

Neighbouring Slovakia, too, is securing a notable VW vote of confidence: an investment of up to DM700m to double the capacity of its Bratislava plant to 200,000 to 250,000 units a year. Starting in mid-year it will add VW Polo output to the VW Golf and Bora models already in production there. Around 90 per cent of production is destined for export, including to highly quality-conscious buyers in the west.

● *New Car Distribution in Central and Eastern Europe 1998: Harbour Wade Brown, 9 Smith Street, Warwick, UK.*

CZECH REPUBLIC & SLOVAKIA by Robert Anderson in Prague

Skoda drives VW's success story

With labour costs only one-tenth of those in Germany, Volkswagen is planning new plants and a push into Russia

Volkswagen has used Skoda Auto, the Czech carmaker it bought in 1991, as its vehicle for expansion into central Europe. Skoda is now the biggest carmaker in the region and has powered VW brands to rank first in sales.

After big output increases in recent years, 1998 will be a year of investment for VW. New plants are planned in the Czech Republic and Slovakia to take advantage of the labour costs one-tenth those of Germany. Skoda has ambitious plans to move further east and build an assembly plant in Russia, but it is also trying to increase sales in western Europe, helped by new models built on VW platforms.

The biggest investment will be a DM1bn engine plant at Mlada Boleslav to turn out 500,000 Skoda engines and gearboxes annu-

ally. Plans have been held up by the need to win European Union approval for the Czech government's investment incentive package, but Skoda expects to begin construction in the middle of this year and to start production in 2001.

Skoda is also revamping its model ranges. At the end of the year it will introduce a replacement for its five-year-old small Felicia model – this time based on the common platform also to be used by the next-generation VW Polo – and in 2001-02 it plans to add a third, larger model.

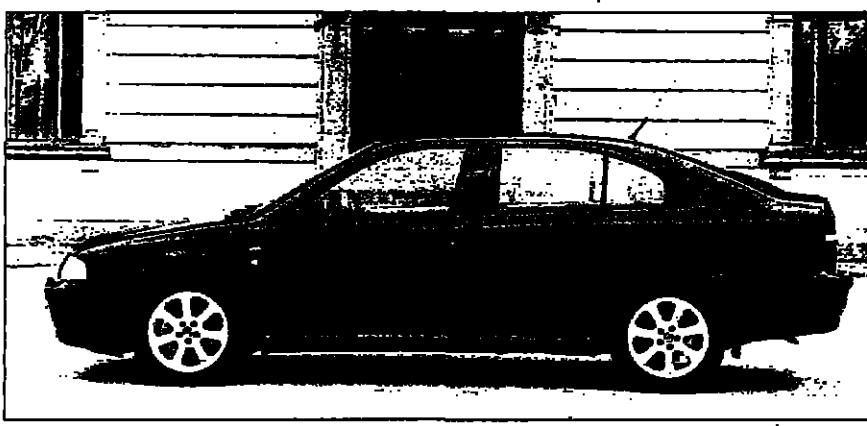
After a slow start it is steadily increasing the production of the newer mid-range Octavia. Output doubled last year to 117,529, helped by the introduction of an estate version. Felicia production fell back 4 per

cent to 285,781 and is expected to decline again this year.

Total production will remain the same this year at around 400,000, but by 2001-02 – when the investments have been absorbed – Skoda expects to produce 500,000 cars a year. This will consolidate its position as the country's biggest company, representing almost 10 per cent of exports.

In Slovakia, VW is moving away from just using the BAZ car plant it took over in 1995 to produce small volumes of labour-intensive niche models such as four-wheel drive Golf hatchbacks. This summer it will begin production of its Polo small car alongside the existing Golf and Bora lines.

VW tripled production at Bratislava last year to 125,000 by importing painted



Skoda's Octavia, chosen as the Czech government's official car, has lifted the manufacturer's image

car bodies for final assembly. The company is now investing DM450m to upgrade capacity so that in 2000 the plant can produce 200,000 to 250,000 cars a year, almost all for export.

VW, Slovakia's biggest foreign investor, is also considering investing in a components plant in Martin. The

company already produces gearboxes and components at its Bratislava plant and cables in Nitra.

VW also has low-volume car assembly operations in Poland and Bosnia producing Skoda Felicias. Skoda is now considering adding Russia in order to overcome the high tariff barriers and get closer to what it sees as an important future market.

Skoda is the top imported car into Russia, though sales last year were half those planned because of the country's financial crisis.

In December the Czech and Russian governments signed a letter of intent which could lead to Skoda investing DM500m over five years in an assembly plant in Izhevsk in the Udmurtian Republic. The joint venture with the carmaker Izhmash to assemble Felicias could begin in the autumn and after five years produce 80,000 cars a year.

"We have covered central Europe. The question is how

fast we expand in eastern Europe," says Detlef Wittig, Skoda vice-chairman.

But Skoda is also looking west. The company increased sales in central and eastern Europe (excluding the Czech Republic) by 8.6 per cent last year although future sales in the region are likely to suffer as the Czech and Slovak economies slow down.

Czech sales fell 18.6 per cent last year to 81,729 – 65 per cent of the market – because of recession and cheap used car imports. Sales figures for January were even worse, down 55 per cent compared with the previous January.

By contrast in western Europe, which comprised 47 per cent of its worldwide sales last year, registrations soared by 37.2 per cent to 172,068 as the Octavia revolutionised Skoda's poor image. The new Skodas, built on VW common platforms, can now be marketed as value-for-money VWs.

RUSSIA by Ryan James Tutak

Foreign cash is drying up

Multinationals downsize, delay or abandon amid fears there may be worse to come

Car production in Russia tumbled 15.3 per cent to 834,126 units in 1998 from 984,609 units in 1997, as the fragile economy fractured into crisis last August. Yet worse might still come as year-on-year output in December fell 18.9 per cent.

In the 1990s, the auto industry performed worse only in 1994 (707,994 units). The impact is stark, as 1997 was the best year since the Soviet Union dissolved in 1991, establishing Russia as the world's 10th biggest manufacturer of passenger vehicles ahead of Canada, and behind Italy.

The 1997 upturn sparked big plans for foreign car makers, including Fiat, Ford, General Motors, Renault and Volkswagen. Even BMW and Volvo looked at opening plants.

Now, though, all new international projects have been downsized, delayed, or abandoned.

Existing ventures with the South Koreans are troubled. Krasny Aksel, which assembles Daewoo models, suffered the biggest percentage fall in production (82.3 per cent). No official data are out for plants assembling Hyundai and Kia cars, but they have made only small volumes, and each has struggled for months. Problems in Korea hardly helped.

When the crisis hit, Rus-

sian auto makers enjoyed a brief burst of demand. Consumers sought to preserve the depreciating value of their durable goods such as cars. But panic purchases abated with similar speed, as the proliferation of bank and business closures prevented ever more people from getting cash to get a car.

Lada-maker AvtoVAZ, the biggest car producer in central-eastern Europe, underperformed its flagging sector. Including subsidiaries Bronto and SeAZ, it cut output 19.1 per cent to 606,137 units in 1998 (its second-worst year) from 749,509 units in 1997 (its best year).

GAZ, Russia's second-biggest car maker – and biggest truckmaker – eked out a rise in production: 0.9 per cent to 125,398 units in 1998 from 124,339 units in 1997. GAZ is the only major auto maker in the old communist bloc to raise output every year since 1991.

The biggest percentage rise in output came, surprisingly, from Moskvich, whose models probably seem attractive only to the ascetic and spartan. The company neared death in 1996, building only 2,929 cars in a plant that produced 188,000 units in 1985. It made nothing last August. Yet its total output for 1998 moved ahead 94.2 per cent to 40,000 units, from 20,599 in 1997.

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1. None ☐ 2. Up to \$4999 ☐ 3. \$5000 - \$9999 ☐ 4. \$10000 - \$49999 ☐ 5. \$50000 - \$99999 ☐ 6. \$100000 - \$499999 ☐ 7. \$500000 - \$999999 ☐ 8. Over \$1000000 ☐

Other (tick one only) _____

Service Industries: ☐ 1. Automotive ☐ 2. Financial Services ☐ 3. Logistics ☐ 4. Other ☐

Other (tick one only) _____

Other (tick one only) _____

Other (tick one only) _____

Other (tick one only) _____

Other (tick one only) _____

Countdown to the endgame

Continued from Page 3

America – two years ago the region supplied 56 of our tyres in Europe or the US; this year it will be 9m. As a result of our own rationalisation and global reach we are in a position to reduce or eliminate whatever high-cost production we have in obsolete facilities.

Underlining the point, Goodyear is closing its fifth-largest plant in the world, in Alabama, because of its high costs and low efficiency.

Mr Gibara makes clear that western Europe itself will not escape substantial rationalisation following the alliance with Sumitomo.

Together, the two companies have 14 plants in Europe – indisputably too many, even though Goodyear expects dramatically to expand the sales of Sumitomo's Dunlop brand.

Like Conti and Pirelli, Goodyear/Sumitomo will make its high value added tyres in western Europe and North America, using its low-cost plants in east European countries, such as Slovenia, and in Turkey to supply commodity tyres throughout the European region.

He views a new round of consolidation as inevitable. "Our competitors can have the choice of consolidating in Europe or in Japan. But how this will play out is very difficult to tell."

Clearly Goodyear thinks it may be difficult for Michelin to make a big move in Europe because of its market leadership and possible problems with the EU Commission. Bridgestone could run into a different set of problems – cultural, for example

– in trying to work with an Italian or a German company.

Michelin, with a European market share close to 30 per cent, seems destined to come under competitive pressure in Europe to an extent it has not experienced for years, thanks to Goodyear's ambitious plans.

"Twenty years ago Michelin and Dunlop were the two most recognised brands in Europe. We now have a wonderful opportunity to revive the Dunlop brand. The Dunlop name has lost some of its status simply because Sumitomo could not afford to do the marketing and development needed to do justice to the name," says Mr Gibara.

"So we will make available

to the Dunlop products the advertising money and other resources that the brand requires. With a clever advertising campaign and a good communications programme we can make the Dunlop name as powerful as one of the two or three best name brands in Europe. We will have two brands of equal value to offer to the consumer."

The Sumitomo deal gives Goodyear a European market share of 22 to 25 per cent share even without developing Dunlop further. "What's happened in Europe over the years is that Michelin has held the lead, with the rest of us on 10 to 15 per cent, making it difficult for all of us to compete. "Once we

develop the Dunlop brand the potential for us to get closer to 30 per cent is real. So we think we are going to have a healthier industry in Europe, and that's what concentration really is all about."

A similar scenario is needed, says Mr Gibara, in Japan. "In Japan you have one strong leader, Bridgestone, and three weak players. But now we're part of the family in Japan and feel that in a reasonable period of time – say three to five years – we will have a leading, or at least acceptable, position."

By then, he predicts, the Japanese industry itself will already be down to two suppliers.

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HUNGARY by Robert Wright in Budapest

Rich expertise is tapped

Technical talent has been a big attraction, and helps to promote the industry as a driver of the national economy

Hungary presented a clean sheet for western car and components manufacturers after the fall of communism.

With no competition from domestic carmakers, Audi, General Motors, Suzuki, and Ford all moved into greenfield sites unburdened with a legacy of inefficient communist production methods.

In terms of knowledge, on the other hand, the motor industry has been tapping reserves of expertise formed over decades. Sandor Molnar, general director of Hungary's Economic Affairs Ministry, points out that this tradition is as old as the car itself.

The carburettor was invented almost a century ago by Donat Banki, professor at Budapest's Technical University, after he saw the fine mist created by a water spray at a flower stall. A Hungarian, Jozsef Galamb, was also a key figure in the development of the Model T Ford.

It is this legacy of technical talent, observers believe, which, allied with low wages, has turned Hungary's motor industry into one of the drivers of the country's economy, generating sales in 1997 of \$2.9bn. Some \$2.5bn of those sales came from overseas, 15 per cent of the country's total exports.

One of the most vivid illustrations of Hungary's technical advance is the 130 robots which drill cylinder heads at the Szentgotthard factory of General Motors' Opel subsidiary. Presented with basic

aluminium blocks, the machines automatically recognise which of three engine sizes the block will fit. Then, in 25 separate operations, they drill and screw on the parts for one of the most complex engine components.

The robots are the biggest such collection anywhere in General Motors. They do not only produce the parts more efficiently than humans; because each machine does all the steps in the process, they avoid the traditional production line problem that one breakdown halts the whole line.

None of this fits with the idea that eastern European manufacturing plants are low-wage, low-skill sweatshops - but neither do the skill profiles of the workforce. Some 53 per cent of Szentgotthard's Opel workers have a high school, college or university degree - a level of education which managers describe as "light years different" from the lower levels to be found in Germany.

The Szentgotthard plant produced 265,000 cylinder heads last year, and 417,000 engines. Opel South-east Europe has become Hungary's fifth-biggest company by turnover. The net profit for 1997 was DM284m on sales of DM1.25bn.

However, the figures have been achieved in an economic climate very different from that in the late 1980s when Opel - and rival Suzuki - first considered investment in Hungary. An

engine plant was always the most important project for Opel, but car assembly also initially looked a good way to penetrate closed Comecon markets.

More than 10 years on, that now uneconomic work is being wound down and the focus is entirely on producing components for cars assembled elsewhere.

Car assembly, meanwhile, is being phased in at the Győr plant of Audi, Volkswagen's executive car division. As well as producing 1m engines per year, the plant plans this year to do the labour-intensive assembly work on 50,000 Audi TT Coupés.

As at Opel, the decision on what to do where has been driven by economics. "For a mass car producer like Volkswagen to produce a model of only 50,000 units a year is a very small volume," says Jürgen Hoffmann, executive manager of Audi Hungaria Motor. "It was important to reduce the costs, so that was the reason for the decision to produce the body and paint it in Germany at Ingolstadt, then to assemble it in Hungary."

Hungary's low wages have made largely manual production viable. Still another set of economic considerations brought Japan's Suzuki Motor Corporation to Hungary. The tight margins in the high-volume, low-cost market in which Suzuki's Swift competes meant profit was always likely to be elusive - making low fixed costs vital.

Tadashi Kondo, Magyar Suzuki's sales director, describes profits for 1998 as "very low" on sales of Ft80bn. In 1997, the plant made net profits of just Ft1.65bn on sales of Ft77bn.

Mr Kondo explains: "In Hungary we can get a rather high quality of labour force with reasonable cost. We think [Hungary] is for us the best place for production."

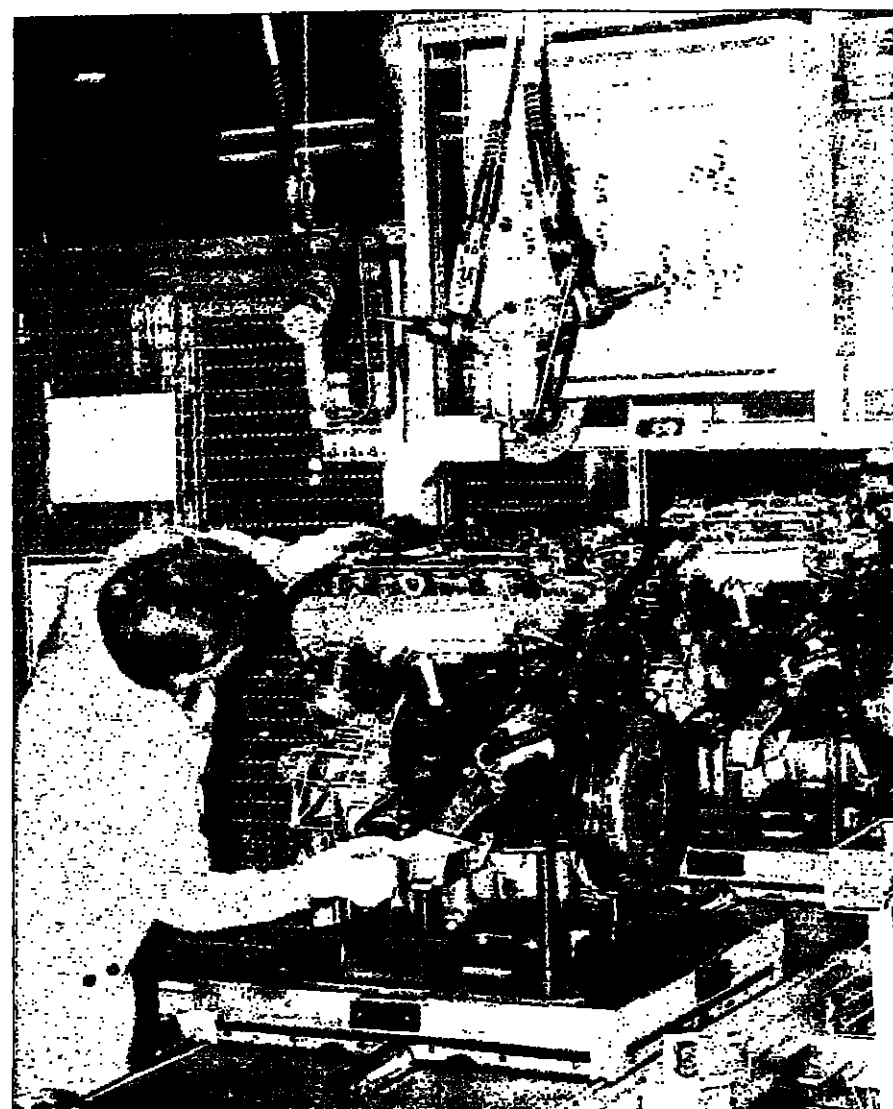
Ford, the US car maker, also has a factory in Szekesfehervar, making fuel pumps, starter motors and gears. The smallest of the multinational plants by sales, it had net revenues of Ft17.5bn in 1998.

Meanwhile, in the shadow of these international investors, a Hungarian-based automotive sector is struggling to escape the communist legacy. Rába, based next to Audi in Győr, has carved out a niche as a specialist axle supplier to the US. However, its bus and truck divisions - designated Comecon suppliers previously - have more question marks against their future, analysts say.

Ikarus, which once produced 16,000 buses a year, is in worse shape, having come close to bankruptcy because crisis-hit Russian customers could not pay their bills. Far more successful has been the tiny North American Bus Industries, a Hungarian-owned company whose main factory, formerly owned by Ikarus, is in the US.

Both for these companies and the multinationals the location of the most successful plants suggests the key to their future. Crowded mostly near the western border, all are looking to establish strong positions in western Europe or North America.

While Hungary's low costs are helping many to compete on price now, there is hope technical prowess will keep the markets open as that advantage erodes.



VW's Audi plant at Győr produces 1m engines a year, and is to start car assembly

Victor Musat

POLAND by Christopher Bobinski in Warsaw

Record sales, but 'goodbye' to the locals

Daewoo is close to leading a market dominated by westerners who negotiated promises of high tariffs on imports

Poles bought a record half-a-million cars last year, making the country one of Europe's larger car markets and making the sector one of the most important in the country's economy.

The story for car manufacturing since the beginning of the 1990s has been one of growing foreign investment.

Fiat of Italy has pumped \$1.4bn into Poland, while Opel, the General Motors German subsidiary, has spent a more modest \$360m. Both investors made their commitment only after wringing promises of high tariffs on car imports from the Polish government as a way of protecting their position from competition by other European and Asian manufacturers.

However, both GM and Fiat were surprised when Daewoo entered Poland in the mid-1990s, subsequently investing \$1.4bn in the country's car and van industry. The ambitious South Korean car maker has renovated the FSO car plant in Warsaw and built market share on the back of CKD assembled vehicles imported from Korea. This year it looks set to topple Fiat as market leader for the first time since 1992.

Locally-designed models have all but disappeared: Daewoo will produce the 1970s era loss-making Polonez saloon car at FSO only until the second half of this year. Daewoo then plans to bring its Matiz model into production.

So far GM, which brought its new DM330m Gliwice plant on stream last September, has stayed behind the game with sales of 42,000 vehicles in 1998. The Gliwice plant in the industrial district of Silesia in south-western Poland has the capacity to produce 75,000 Astra Classic vehicles and will be expanded by the end of 2000 at a cost of DM370m to manufacture a small city car.

The Gliwice plant is sited in a special enterprise zone which gives GM a 100 per cent corporate tax break for 10 years and a 50 per cent cut for another decade. These terms have annoyed Fiat, which makes cars at Tychy and Bielsko Biala nearby and which started production before the special zones had been established.

Fiat, worried by its contracting market share, is

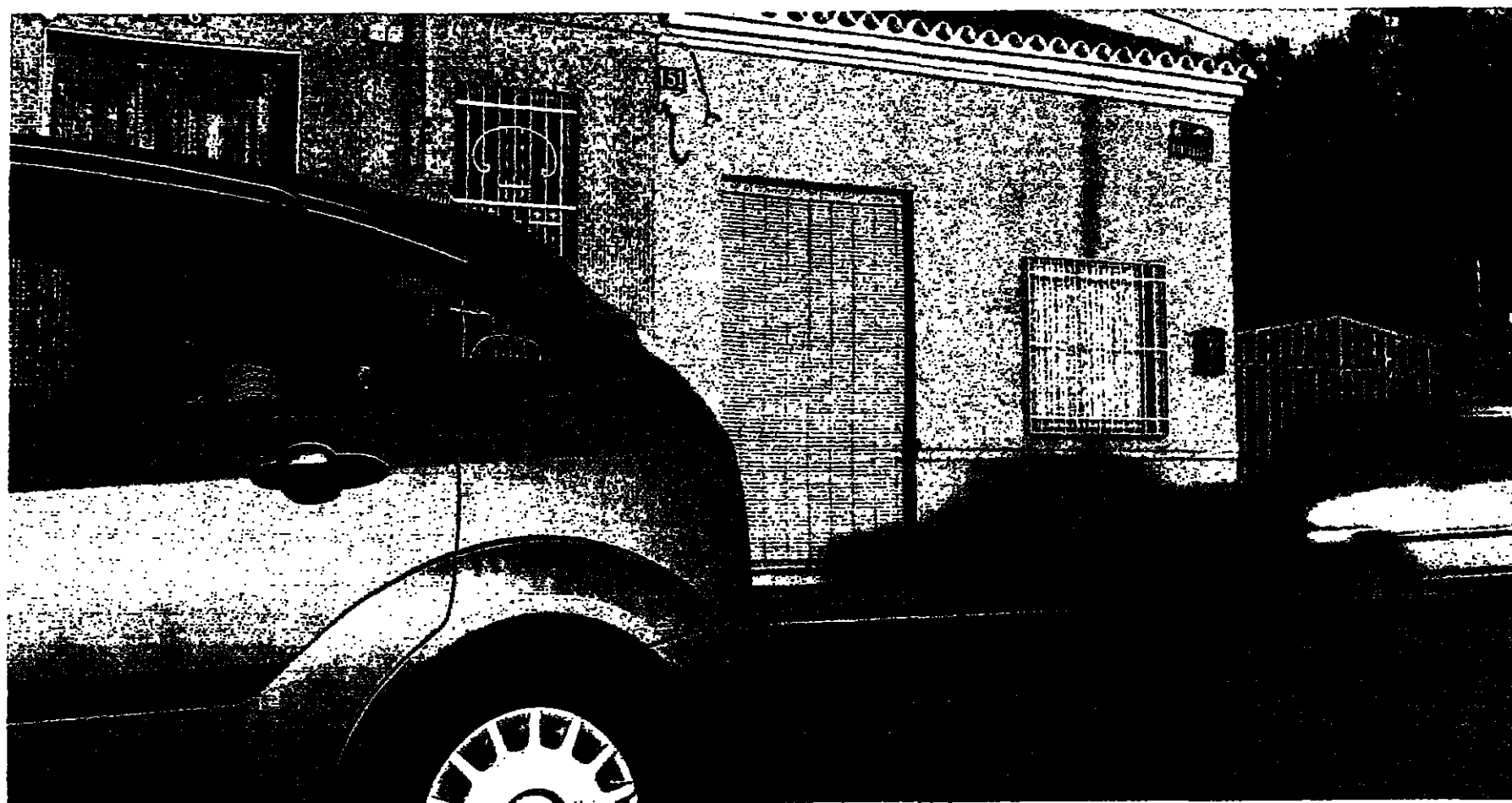
particularly angry at Daewoo, which is still assembling part of its output in semi knocked-down form to avoid paying a 17.5 per cent tariff on cars brought in from outside the EU. However, the government, mindful of promises made to Daewoo that assembly would be tolerated for a time at least, recently said it would continue to permit CKD assembly till the end of this year.

Meanwhile, the government is happy to see the main car manufacturers bringing their suppliers into the country with them. "Fiat is telling its suppliers to establish operations in Poland because the labour costs are lower than in western Europe," says Adam Pawlowicz, head of Poland's Foreign Investment Agency (PAIZ). The same is true of Daewoo and GM. Indeed, these investments by foreign car component manufacturers mean that inward car industry investments last year ran to \$2bn.

Other European car makers, such as Renault, Volkswagen, and Ford, are concentrating on building dealer networks and brand awareness, and waiting for tariffs on car imports from the EU, now at 20 per cent, to be reduced to zero in 2002.

Volkswagen won 11.5 per cent market share last year thanks to its Czech-made, locally-assembled Skoda model. The German car maker is currently building a diesel engine plant and a seat-making factory near Legnica at a total cost of \$190m. Ford, whose market share last year was down at 5 per cent, has a modest assembly operation in Poland.

As tariffs on car imports from the EU come down and Daewoo's and GM's manufacturing operations in Poland come into full swing, so will competition inside Poland mount. Fiat has been exporting its Polish-made cars back into western Europe and GM has said it will be selling its Gliwice-made cars throughout central Europe. Daewoo is also set on developing exports from Poland. This year just under 30 per cent of the 111,000 Lanos cars the Korean company plans to make at Zeran will be exported, with several thousand planned to be sold in Germany and France. By 2002 Daewoo plans to sell 45 per cent of the model abroad.



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GUEST COLUMN by Sir Trevor Chinn

Changing face of retail sector

The chairman of UK auto group Lex Service explains how companies such as his are needing to adapt to fresh demands

In June 1997 I spoke at a European conference on the future of the retail sector for cars. I described how the car dealership system had enabled manufacturers to develop their markets using the entrepreneurial skills and private capital of individual dealership proprietors.

The system has worked well for the car industry, but changes were occurring as manufacturers increased their control over their distribution networks and created larger dealer territories to achieve economies of scale and to reduce competition between neighbouring dealerships of the same brand.

Since my speech the rate of change has increased, with Ford taking financial stakes in dealerships in regions in the US and in the UK. Publicly-quoted dealership groups have expanded

rapidly in the US as dealership owners sought to capitalise on the value of the business they had built up. In the UK, there has been yet more consolidation of the dealership groups.

There are many other factors affecting the retail distribution of cars.

Increasing reliability has reduced the need for servicing and repairs for new cars from 2.2 visits per year in 1992 to 1.5 in 1998, according to research for the annual Lex Report on Motoring. Many UK drivers only visit their dealership once a year for a service plus, possibly, one other visit for a repair or compulsory government safety check (MOT).

The technical complexity of modern cars means that the proportion of drivers carrying out their own repairs has fallen from 23 per cent in 1998 to 14 per cent in 1998. Confidence in the reliability

of their cars has also encouraged drivers to keep their cars longer: the average length of ownership has risen from 3.5 years in 1988 to 4.1 years in 1998.

The effect of these behavioural shifts is to alter the relationship between the customer and the dealership, making it much harder to maintain customer loyalty. Only 39 per cent of new car buyers had previously used the dealership where they bought their car, while for used car buyers it is 18 per cent.

It is also clear that the internet is becoming increasingly important as a source of information on prices, specification and availability of both new and used cars. This, too, will break the relationship between the customer and the traditional car dealership.

The traditional dealership provides the full range of

services which a car owner requires, typically under one roof. This is manageable when the scale is small. However, a volume dealership, selling 2,000 new and used cars, is now a complex multi-skill operation. It requires a manager with a wide range of experience in marketing, sales, administration, financial control, inventory management, production control and personnel.

The business is not profitable enough to support specialists in each of these areas, and it may not be viable even for large groups to exploit their scale by having such specialists centrally.

Dealership groups have reacted in different ways - some have built up scale, others have built partnerships with specific manufacturers, while in Lex we have moved away from high-volume car dealerships towards business services, such as

contract hire, and towards motoring services. Other groups have developed free-standing used car sites and networks of body repair centres.

The car retailing operation at Lex has been slimmed to 30 dealerships, representing a smaller number of brand-focused manufacturers where we can provide the high level of personal service which is appropriate to the image of their cars.

Our retailing now accounts for less than 15 per cent of our profit. As an alternative to the large dealership territory approach, in our Hyundai Importership - where we are responsible for the marketing and distribution of Hyundai cars in the UK - we have selected some 160 independent dealers. We call them our "Local Heroes"; they are typically small in scale, and the dealer principal is a pillar of the community.

They are personally involved and have a long-term commitment to the product. The other change we have made is to "unbundle" the traditional dealership. Instead of one dealer offering a wide range of services, we have shown that there is a need for specialist chains of branded service providers who handle all makes of cars.

Our focus has been on three areas of motoring services: servicing, used car sales, and body repairs. This has given us a major opportunity to build a higher margin business and to make the Lex brand stand for "trust" and "value".

We are building specialist chains of service centres, used car retailing sites, and large-scale bodyshops, operating in a fundamentally different way from traditional car dealerships. There is central control over operations, pricing and marketing, while local site managers are left to concentrate on customer service and managing their people. They offer fixed prices and comprehensive no-quibble guarantees which lead to high customer satisfaction and loyalty. We are competing against the poorly-capitalised and lower quality non-franchised independent operator rather than the franchised dealership.

Through such changes Lex is now a broadly-based business and vehicle services group, largely insulated from the continuing changes in the car retailing world.



Sir Trevor: 'Customer loyalty is more difficult to maintain'

Buoyant demand boosts producers

Although some full-year figures are yet to be announced, it is safe to say that collectively Europe's car makers had a good year in 1998, writes Jonathan Slayter.

Of the seven main European car producers, four (DaimlerChrysler, PSA Peugeot Citröen,

Renault, and VW) are expected to report increased earnings for the year, two (BMW and Volvo) have reported a fall in profit, and one (Fiat) has slipped into loss.

All the producers benefited from buoyant demand in western Europe, where a 7 per cent increase in new car registrations marked the fifth consecutive year of growth.

Similarly, those car makers with sales exposure to the North American market

(BMW, DaimlerChrysler, Volvo, and VW) benefited from the sustained high levels of demand in the region during 1998.

The sharp downturn in Asian markets had relatively little impact on European producers. The merger of Chrysler and Daimler-Benz accounted for a time of strong earnings growth at both companies. The Mercedes-Benz passenger car division increased its unit sales substantially during the year. The

Chrysler division was helped by the strong domestic demand for light trucks, the strikes at GM, and new products such as the L35 and 300M.

PSA Peugeot Citröen has reported an 11.2 per cent increase in revenue for 1998 and its net profit is expected to improve. The merger of Chrysler and Daimler-Benz was dragged down by an operating loss within the profitable division. The car division in

Renault is also expected to report a substantial improvement in profit for 1998, principally due to the success of the Megane, the new Clio, and the Kangoo.

The 1998 results for the VW Group will show significant revenue and profit increases. This marks the 10th successive year of profits growth, helped by higher unit sales and further reductions in the group's cost structure.

Passenger car producers

		REVENUE				PROFIT			
		1998	1997	Percentage change (1998/97)	1998	1997	Percentage change (1998/97)	1998	1997
Europe	Currency								
BMW	DM(m)	63130	60137	5.0%	10200	1246	-18.1%		
DaimlerChrysler	DM(m)	260000	223000	13.4%	10100	8024	25.9%		
VW Group	DM(m)	135000	118245	19.2%	22000	1361	61.6%		
Fiat Auto	Lira	48000	50734	-5.4%	-192	1468	-113.1%		
PSA	FF(m)	221439	199051	11.2%	87700	683	1184.0%		
Renault Automobile	FF(m)	195077	165788	17.7%	85500	901	948.9%		
Volvo Cars	SEK(m)	103798	96453	7.5%	3800	4510	-15.6%		
Figures are for the period Jan-Dec									
Japan									
Honda	Yen	3133.5	2784.7	12.1%	158.2	126.5	25.1%		
Mazda	Yen	1061.5	1025.3	3.5%	8.5	-18.2	146.7%		
Mitsubishi (non-consol)	Yen	1106.3	1319.5	-16.2%	-26.6	8.6	-433.8%		
Nissan (non-consol)	Yen	1638.5	1776.1	-7.7%	-32.5	30.5	-184.4%		
Toyota	Yen	6200.0	5560.0	11.5%	182.7	240.9	-20.0%		
Figures are for the period Jan-Dec									
US									
Ford	\$ (m)	119038	122935	-3.2%	4752	4714	0.8%		
GM	\$ (m)	161315	171184	-5.8%	2956	6314	-53.2%		
Figures are for the period Jan-Dec									

Production of passenger cars (000)

		1998	1997	1996	% change (1998/1997)
Western Europe					
Austria	59	97	91	83	-0.1
Belgium	1188	1144	1005	1001	0.0
Finland	0	0	2.0	11	4.5
France	2047	2088	2258	2262	-0.1
Germany	4360	4540	4678	5348	0.1
Italy	1422	1318	1563	1378	-0.1
Netherlands	100	145	197	243	0.2
Portugal	73	153	186	181	0.0
Spain	1859	1842	2010	2158	0.1
Sweden	386	368	378	369	0.0
UK	1532	1686	1688	1746	0.0
Total	13168	13461	14665	15100	0.1
Eastern Europe					
Bulgaria	2.0	1.0	0.0	0.0	0.0
Former Czechoslovakia	213	270	382	484	0.3
Former USSR	893	888	1052	929	-0.1
Former Yugoslavia	96	98	107	92	-0.1
Hungary	51	63	76	94	0.2
Poland	397	442	538	615	0.1
Romania	92	117	128	129	0.0
Total	1736	1679	2263	2343	0.0
N. America Free Trade Agreement					
Canada	1365	1299	1376	1457	0.1
Mexico	700	816	855	953	0.1
US	6342	6070	5922	5560	-0.1
Total	8407	8185	8153	7970	0.0

		1998	1997	1996	% change (1998/1997)
Latin America					
Argentina	227	295	368	353	0.0
Brazil	1303	1467	1675	1245	-0.3
Rest of Latin America	47	82	106	111	0.0
Total	1577	1778	2149	1709	-0.2
Asia					
China	376	494	529	465	-0.1
India	369	472	456	469	0.0
Indonesia	40	35	55	72	-0.6
Japan	7611	7884	8492	8056	-0.1
Malaysia	252	305	383	181	-0.5
Philippines	73	77	58	38	-0.4
South Korea	2003	2265	2308	1825	-0.3
Taiwan	282	285	288	288	0.0
Thailand	126	130	112	50	-0.6
Total	11154	11916	12672	11194	-0.1
Australia	294	315	303	303	0.0
South Africa	224	229	208	195	-0.1
Turkey	233	300	238	230	0.0
WORLD	36734	37630	40030	38047	0.0

Production statistics are official figures, not cleared of double-counting. Includes estimates for minor markets

New registrations of passenger cars (000)

		1998	1997	1996	% change (1998/1997)
Western Europe					
Austria	280	308	275	286	7.5
Belgium	359	397	386	452	-14.1
Denmark	136	142	153	162	6.0
Finland	80	96	105	126	20.6
France	1931	2132	1713	1944	13.5
Germany	3314	3496	3528	3736	5.9
Greece	125	143	162	161	11.5
Ireland	87	115	137	146	6.9
Italy	1745	1732	2404	2364	-1.7
Luxembourg	29	31	32	36	13.2
Netherlands	446	473	478	543	-13.6
Norway	91	125	128	118	-7.8
Portugal	201	218	214	248	16.1
Spain	834	911	1016	1192	17.4
Sweden	170	180	225	253	12.4
Switzerland	268	272	271	295	9.0
UK	1945	2026	2171	2247	3.5
Others	14	14	15	15	2.7
Total	12055	12810	13420	14354	7.0
Eastern Europe					
Bulgaria	11	8.0	8.0	11	41.0
Former Czechoslovakia	136	228	230	232	1.0
Former USSR	787	842	987	636	-36.2
Former Yugoslavia	68	98	132	168	18.7
Hungary	69	75	80	108	35.3
Poland	264	373	478	513	7.3
Romania	96	97	96	104	8.3
Total	1401	1716	2020	1782	-12.8
North America Free Trade Agreement					
Canada	677	661	736	740	0.5
Mexico	117	209	301	426	41.5
US	8636	8529	8280	8183	-1.3
Total	9430	9399	9326	9349	0.2
Latin America					
Argentina	275	286	316	322	2.0
Brazil	1411	1401	1591	1232	-21.1
Rest of Latin America	329	540	674	475	-29.5
Total	2215	2227	2581	2029	-20.5
Asia					
China	433	401	485	419	-9.9
India	394	465	508	500	0.2
Indonesia	38	44	73	12	-83.6
Japan	4444	4669	4482	4083	-6.9
Malaysia	225	278	308	132	-57.1
Philippines	73	89	76	38	-50.0
South Korea	1148	1238	1151	988	-50.7
Taiwan	415	363	358	358	-0.1
Thailand	163	173	132	42	-86.2
Rest of Asia	79	74	90	84	-6.7
Total	7407	7793	7682	6253	-18.3
Middle East					
Turkey	199	217	295	288	-2.5
Rest of Middle East	454	496	540	567	6.0
Total	653	716	835	855	2.3
Africa					
South Africa	458	590	525	558	6.3
Oceania	568	583	585	542	9.2
WORLD	34186	35786	36916	38002	-3.0

Data provided by Marketing Systems

Financial Times Surveys

FT Auto

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FINANCIAL TIMES
No FT, no comment.

CENTRAL-EASTERN EUROPE

Daewoo gnaws at VW's lead

Volkswagen, the top-selling auto group in western Europe, led the booming markets of central-eastern Europe for a third consecutive year in 1998. But Daewoo, the South Korean manufacturer, halved this edge, capturing nearly 40 per cent of the region's growth.

Overall, sales jumped 7.3 per cent to 1,237,840 units in 1998 from 1,163,915 units in 1997, for 11 countries reporting reliable data: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

These figures cover new light vehicles not over 3.5 tonnes gross weight. Although VW led the way, it suffered from the 18.2 per cent downturn in its main market in the region: the Czech Republic, home to Skoda, generated 62.3 per cent of sales by the German group, which also includes Audi, Seat and specialty brands. VW's regional sales dropped 2.8 per cent as its share slipped to 20.8 per cent in 1998 from 23.0 per cent in 1997.

Daewoo, which has

become a significant force by buying six state-owned automakers in the region since 1985, increased sales 17.8 per cent to 218,880 units in 1998 from 185,680 units in 1997. This cut VW's lead over the Korean group 51 per cent to 38,788 units from 79,191.

Daewoo's increased sales of 33,010 units reflected 39.3 per cent of the overall rise in demand of 83,925 vehicles. Fiat, the region's leader from 1993 to 1995, fell further. Its sales slid 5.8 per cent to 195,599 vehicles in 1998 from 207,751 units in 1997.

The Italian group (Alfa Romeo, Fiat, Iveco, Lancia and specialty brands) has been handicapped by its narrow focus in the region. It owns a huge car making complex in Poland, but it makes no light vehicles elsewhere in central-eastern Europe.

In contrast, VW has built its lead on a broad presence. The German group still centres its strategy on Skoda, but it also assembles models from each of its four main marques in Poland. It makes gearboxes and VW cars in

New light vehicle registrations, 1998

		Volume (Units)	Change (%) 1998/97	Share (%) 1998	Share (%) 1997
Total market		1,237,840	+7.3	100.0	100.

FLEETS by John Griffiths

Makers tune in to leasing

Finance subsidiaries are now showing a growing interest in pan-European one-stop shops for company transport

The concept of one-stop shops for companies operating their car fleets on a pan-European basis is becoming reality.

Leading independent specialists in the fleets and leasing sector, such as Amro Bank-owned Lease Plan, are already well advanced with developing cross-border car leasing and fleet management operations.

Their proclaimed function is to relieve client companies of the administrative burdens - frequently nightmares - of buying, running and disposing of company cars within still widely varying EU member-state vehicle and taxation rules and regulations.

Now vehicle manufacturers in the form of their finance subsidiaries, are also starting to move in. By the end of this year, debis Car Fleet Management (DCF), part of the new automotive giant DaimlerChrysler, will have expanded beyond its home base in the UK into every sizeable country in continental Europe, including company car emerging markets such as Poland and the Czech Republic.

In mid-February Volkswagen, Europe's biggest vehicles group, announced the creation of International Fleet Management, a third wholly-owned unit of its financial services division, also aimed at capturing management of large, multinational fleets.

Like debis, and similar

operations being set up or contemplated by a growing number of rivals, the VW management company is concerned with all makes of car, not just those produced by the group. A basic ingredient of the leasing business is to acquire whichever vehicles, irrespective of brand, the client company wants to operate, not those the parent manufacturer wishes to sell.

DCF itself has already set up operations in the Netherlands and in Germany, where its ultimate parent has its European headquarters.

The attraction, as Hubertus von Zastrow, its managing director, points out, is that the company car fleet is normally the second-highest overhead for a company after its employees. The complexities of pan-European operations have inevitably put managing it more effectively higher up most large companies' agendas.

Like most of its rivals, DCF packages range from all-inclusive contract hire to management services - the basic functions on which the leasing and fleet management sector has been based, at a national level, for several decades.

The new dimension of pan-European fleets, however, means that the companies owning or operating them are seeking single, all-in deals covering the lease or purchase of their vehicles wherever they may be based,



Alexander Weissleder: Looking for scale advantages

or by whichever national subsidiary the vehicles might actually be run.

"There is no doubt that there are scale advantages to be gained," says Alexander Weissleder, managing director of Mercedes-Benz Finance and responsible for the West European and South African operations of debis Finanzdienstleistungen, the "captive" finance organisation of DaimlerChrysler.

For all the effort going into pan-European activities, it is still a fledgling business - 80 per cent of the cars being leased or managed by DCF are still to mainly small companies operating entirely within the UK, says Mr Weissleder. "And it will probably stay that way for the next three to four years."

The DCF international operations are targeting companies running fleets of at least 25 cars - and usually

many more. In the process, much is being learned about the emotions, politics and tensions which can arise over company car policy between national offices of a large corporation and those at HQ concerned only with minimising the fleet bill.

"For example, an Italian local office - with its own preferred cars and ways of running them - is likely to say 'you can't do that here' when there is an attempt to impose a central policy. That situation needs someone like us to simplify things," says Mr Weissleder.

How rapidly the pan-European element of the business will grow is open to question. One significant factor will be whether the recent spate of large-scale mergers and acquisitions across a number of industrial sectors - including that of Daimler-Benz and Chrysler, for example - is sustained. Such

activity has already played a big role in the growth of international business to date, says Mr von Zastrow.

DCF is creating its own pan-European operations from scratch, rather than seeking possible partners.

The partnership route has been promoted by some of the leading independent groups, arguing that it makes sense to tap existing expertise in complementary markets. But it is not an approach favoured by DCF - "there is no way of obtaining expertise in this manner to cover the whole of Europe."

Part of the reason relates to the wide differences in company car populations in individual European states. In some countries, such as Italy and Spain, fleet leasing and management is a recent phenomenon, with current annual growth rates of around 30 per cent. Germany is growing at about half that rate, while the UK market, approaching saturation, is now growing at about 5 per cent.

Like the automotive industry itself, the vehicle fleet finance and leasing industry faces a further period of consolidation, predicts Mr Weissleder. Despite the emergence of several dozen large players, it remains a fragmented business, with 450 companies operating in the UK sector alone. Manufacturer-owned operations, he forecasts, will move in to take an increasingly large share of the business. But the main losers will not be rival large independent groups but "the many smaller companies which will be swallowed as the big groups get bigger".

PEOPLE by Haig Simonian

Visteon's new chief has eye on market

Will Craig Muhlhauser, Visteon's new president, be the man to lead the world's second-biggest automotive supplier to the stock market?

The chances of Ford floating its former Automotive Components Group, renamed Visteon more than a year ago, have increased after last month's successful \$1.7bn flotation by arch-rival Delphi.

General Motors' initial public offering of 17.7 per cent of its Delphi subsidiary has opened a path for other components groups to go to the market. American Axle and Manufacturing, a buy-out largely composed of former GM plants, is a minor player by comparison. But it used the awareness created by the Delphi deal to slip in ahead with an initial public offering of 7m shares to raise \$119m at the end of January.

Mr Muhlhauser, who joined Visteon from the Pratt & Whitney jet engines arm of United Technologies in July 1997, is not trumpet-ing his stock market goals. But Ford's planned acquisition of the car operations of Sweden's Volvo could bring him a step closer to achieving one of the aims, which, analysts say, he must meet for potential investors in Visteon to cough up.

The Volvo deal should help Mr Muhlhauser meet his target of reducing Visteon's dependence on sales to Ford in the US. Only through new business can the company demonstrate it is more than a captive supplier. Delphi, the world's biggest automotive supplier, has already learned the days of guaranteed contracts from its parent company are over.

Ford's Volvo purchase should allow an entrée to a new customer. Even before the deal, Mr Muhlhauser regarded Europe's car makers as a prime opportunity given his estimate that about \$26bn of new supply contracts were up for grabs in the region this year alone. Appointed president to succeed Charlie Szuluk on



Craig Muhlhauser: seeks lesser dependence on sales to Ford

January 1, Mr Muhlhauser argues Visteon has two telling advantages over big rivals such as Delphi, Dana or Valeo.

The first is systems competence. Every supplier worth its salt is talking systems now, Visteon he claims, is special. He argues the company has genuine technological leadership in some areas. "What distinguishes our air conditioning from those of, say, Valeo? In this business, if you're not out in front, you get run over."

He also stresses Visteon's "financial muscle" - and hints at Ford's even bigger resources behind it. With more than \$10bn in net financial liquidity, even after the Volvo deal, Ford is currently one of the world's richest car makers.

Customers' awareness of that should help Visteon pitch for new business, he argues. "Our objective is to have more and more of the financial muscle to assume the risk for original equipment makers." Such risk-taking, he believes, is crucial as vehicle makers shift more research and development and manufacturing work to suppliers to drive down costs and raise profits.

Mr Muhlhauser also hopes he can harness Visteon's technological capabilities in new ways. Helped by his

non-automotive past, he has spotted opportunities to sell to new customers outside autos. "Highly-admired companies, such as 3M, have core competences like adhesives but are always looking for applications elsewhere," he says.

Visteon, for example, has real expertise in compressors, which lie at the heart of the air conditioning systems which are one of its fortes. But its compressor technology also lends itself to other opportunities, such as power generation.

Others have been thinking along similar, if less high-tech, lines. Delphi has been trying to find new, non-automotive, customers to reduce its dependence on GM's North American plants. It now sells wiring harnesses to the aerospace sector. With its massive economies of scale, Delphi can produce such parts far more cheaply than traditional suppliers.

Whatever their product differences, such strategies suggest leading parts makers are thinking along similar lines to develop new business opportunities. As with Delphi, so with Visteon, moving away from the heritage of being a captive supplier is a vital step for the future. Mr Muhlhauser may be Visteon's best helpmate to get there.

NEW AND UPDATED by Haig Simonian

Peugeot 406 gets facelift

After almost four years near the top of Europe's best-selling family car league, Peugeot has decided to freshen up its 406. The most striking aspect of the facelifted car, to be seen for the first time at the Geneva motor show this month, are a new front, with narrower, more aggressive headlights, and a restyled rear.

Peugeot claims the revised 406 has about 1,000 engineering changes, including a new generation of lighter, more economical petrol engines. The new 406 will appear just as Renault and Fiat are refreshing two of their most popular models. Most of the external differences to Renault's Mégane and Fiat's Bravo/Brava would escape the untrained eye, but the alterations inside are more striking, including new dashboards.

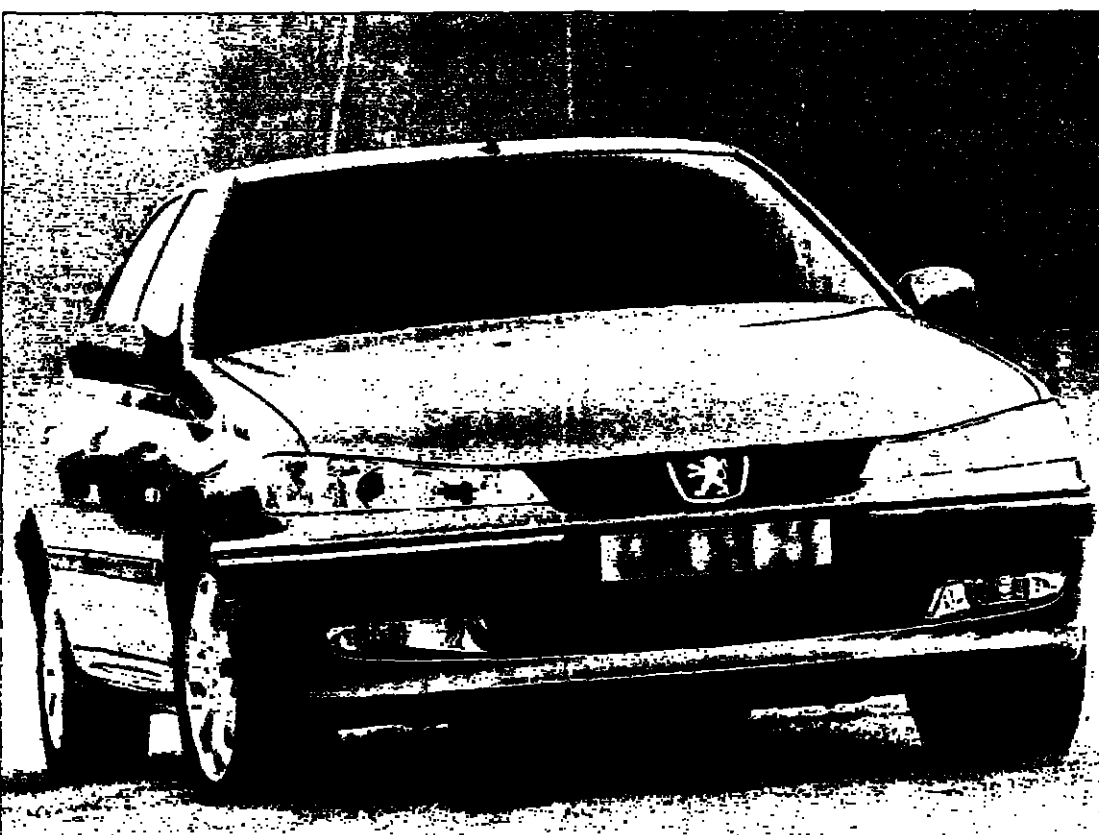
Small family cars like the Mégane and the Bravo/Brava slug it out in the biggest, but most competitive, segment of the European market. With newer products such as VW's Golf, the Opel/Vauxhall Astra, and the Ford Focus threatening to eclipse Renault's and Fiat's offerings, such mid-life facelifts have become a necessity for car makers.

General Motors has high hopes its new Zafira people carrier, badged as an Opel in continental Europe and a Vauxhall in the UK, will quickly terminate the monopoly on the sector held by another of Renault's Méganes, the top-selling Scénic.

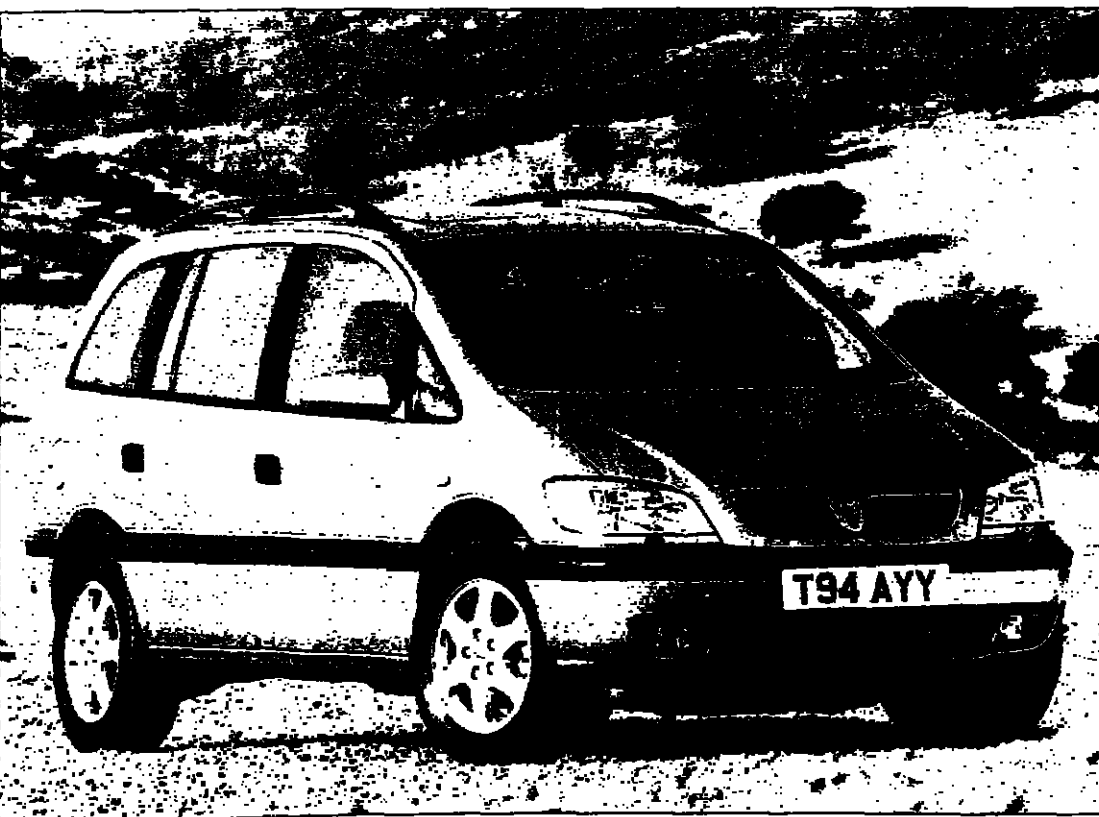
So confident is GM, that its European planners have decided to raise Zafira output before a single unit has been gone to a customer. The car will not go on sale until after its debut in Geneva.

To meet the expected demand, GM is increasing output this year to 140,000 units from the 120,000 planned. By 2000 production should reach 200,000.

The upgrade follows a forecast by GM's planners that sales of such people carriers, built on the platforms of lower mid-sized family cars, will soar fivefold by 2005. In 1998 the niche pioneered by the Scénic accounted for about 2 per cent of the European market, or 280,000 units. GM expects that to reach at least 10 per cent in the next six years.



High hopes: Peugeot's 406 (above) and (below) the Vauxhall-badged GM Zafira



COMPANIES by Haig Simonian

Italians and French in joint venture

Links between Fiat and Renault will tighten further when the two companies next month finalise their latest joint venture.

Fiat's Comau industrial automation subsidiary is to buy 51 per cent of Renault Automation, the French car maker's similar subsidiary. Under the terms Fiat has an option to take the remaining 49 per cent between 2002 and 2004.

The link follows last November's move by the two groups to combine their foundry operations, with Fiat's

specialist Teksid subsidiary taking almost 67 per cent of the pooled company. Not much earlier, Fiat and Renault decided to put their bus activities into another joint venture, Iris-Bus.

Comau is one of Fiat's highest profile operations - although its renown tends to be restricted to robotics and process engineering specialists. Among its customers, apart from Fiat itself, are Mercedes-Benz. The German luxury car maker installed Comau units on its A-Class

production line at the Rastatt factory after being impressed by the units seen at Fiat's showcase Meifi plant.

Financial details of the latest Fiat-Renault link will not be released until the formal agreement is signed in April.

Comau, which is 65 per cent owned by Fiat, had sales of £1.86bn last year. Sales at Renault Automation, which employs nearly 800 people at three factories in France, amounted to about £103m in 1998.

About 85 per cent of turnover came from the Renault parent company or from Peugeot-Citroën.

Is the latest transaction another step on the way to a Fiat-Renault merger? Analysts are doubtful: the overlaps are so great any marriage would lead to massive redundancies. But the trio of recent deals demonstrates the pressures on even sizeable vehicle groups such as Fiat and Renault to cut costs and improve efficiency in a ruthlessly competitive market.

Crossing over to Detroit

Ford Motor may have bought - many would say saved - Jaguar, but it is gratifying to see the UK luxury car maker rewarding its US parent by offering some brainpower in return.

David Szczupak, the chief programme engineer on Jaguar's new S Type, which is shortly to go on sale, will next month hop over to Detroit to take the top job at Ford's global powertrain engineering operations.

The genial Mr Szczupak will not be running the whole show: he will report to Roman Krygier, Ford's head of powertrain operations, responsible for manufacturing as well as design, and, indirectly, to Richard Parry-Jones, the talented Welshman in charge of overall product development. But Mr Szczupak, who made his name heading the team behind Jaguar's highly-acclaimed AJ V8 engine,



David Szczupak: masterminded the Jaguar S Type engine

should prove a valuable addition to Ford's engine development efforts. Two years after becoming chief engineer of Jaguar's engine programme in 1994 he was

appointed chief programme engineer for the S Type. With the new model already winning plaudits in the press, Mr Szczupak's star looks set to carry on rising.

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MONDAY MARCH 1 1999

Week 9

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INSIDE

Lycos fights merger move

Robert Davis, chief executive of Lycos, is fighting hard to defend the planned merger of his high-flying Internet company with the less glamorous Home Shopping Network, the television shopping channel. Page 22

Currency markets await policy shift

The currency markets this week will be on the alert for signs of monetary policy changes in the euro-zone and the US. The European Central Bank's governing council meets on Thursday with a very public battle over monetary policy continuing between Oskar Lafontaine, the German finance minister, and Wim Duisenberg, president of the ECB. Currencies, Page 25

Poor start for Colombian shares

Economic recession, higher taxes and asphyxiating interest rates have not provided the best of starts for Colombia's stock markets this year. Since the beginning of January, Bogota's IBB Stock Market Index has fallen 20.5 per cent in dollar terms, and it is now the region's third worst performer after Brazil and Venezuela. Emerging markets, Page 22

Tokyo stocks braced for low profits

The Tokyo equity market has stood up surprisingly well to a rolling barrage of profits warnings in the past fortnight from some of Japan's leading blue-chip companies. However, questions remain whether the market has adequately priced the full scale of the profits downgrades that are likely to be announced before the end of the financial year on March 31. Page 25

Greenspan relies on bond market

Over the past six months Alan Greenspan, chairman of the US Federal Reserve, has been trying to rein in the booming US economy, largely by talking down the equity market, without success. Now Mr Greenspan appears to be encouraging the US government bond market to do the job of monetary tightening for him. Government bonds, Page 24

UK interest rates on the agenda

The Bank of England's monetary policy committee will hold the UK stock market's fate in its hands once again as it decides whether to alter UK interest rates. Page 25

Britain's bingo revival

The UK is seeing a revival of bingo, the social gambling game generally played by middle-aged women. The game's core constituency is growing and it stands to benefit from recent advertising deregulation. Gala, Britain's largest bingo club operator, believes it is Britain's "new growth industry". Page 21

Rolls-Royce reports

Shareholders in Rolls-Royce will discover when it reports this week whether the UK aerospace and industrial power group has achieved its target of double-digit earnings growth. Page 25

FT GUIDE TO THE WEEK

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BANANA DISPUTE RIPENS

The dispute settlement body of the World Trade Organisation in Geneva is due to establish a panel on Tuesday to examine the controversial Section 301 of US trade law, used by Washington to threaten sanctions against the European Union in their dispute over bananas. CHERNOBYL REACTOR MAY REOPEN
The last operational reactor at the Chernobyl nuclear power plant in Ukraine could reopen from Tuesday, according to officials in Kiev. JAPAN GOES ON THE PILL
The central pharmaceutical affairs committee of Japan's ministry of health and welfare is expected to recommend at a meeting on Wednesday that the contraceptive pill be licensed.

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Energy group threat to leave Germany

By Tony Barber in Frankfurt

RWE, the German energy and industrial group, has threatened to transfer some of its business operations abroad in protest at the centre-left government's planned tax reforms.

It was the second warning in less than a week from a large German company and underlined the scale of disenchantment among business leaders with the tax policies of Chancellor Gerhard Schröder's administration.

Allianz, the Munich-based insurance group, said last Wednesday that it might trans-

RWE follows Allianz in protest against tax reform plan

fer operations such as asset management and international industrial insurance out of Germany if the government introduced tax reforms targeting insurance companies.

Yesterday, Allianz's chief executive, Henning Schulte-Noelle, suggested his group might form a European-wide holding company and move its headquarters out of Germany. "That can just as well be in another country of the European Union as Germany," he was quoted as saying in the newspaper Welt am Sonntag.

RWE's chief executive, Dietmar Kuhn, said in a letter addressed to members of the German parliament's finance committee that the reforms would impose an extra DM25bn (\$14bn) in taxes on German utility companies. Under the government's proposals, companies would have to pay taxes on their capital reserves.

RWE said a heavier tax burden would force the company to reconsider its planned investment in the Garzweiler II lignite mining project near

Düsseldorf. "We have to review the whole investment plan," said a company official, Dieter Schwen. "It's a question of at least 14,000 jobs. If the investment position is no longer attractive, we will examine every possibility of transferring our investments abroad."

RWE has extensive mining, raw materials, petroleum, chemicals and waste management operations as well as its main energy business.

Almost immediately after the Social Democrat-Greens

election victory last September, RWE and other energy groups found themselves at odds with the new coalition government over its intention to phase out nuclear power. However Chancellor Schröder, to the annoyance of his Green ministers, later watered down this initiative.

Some senior German executives believe the chancellor is more pragmatic than many of his colleagues and can be persuaded to amend government policies in the interests of business. Representatives of the insurance industry are expected to meet Mr Schröder on Wednesday.

SA beer giant wins its London listing

By John Willman, Consumer Industries Editor

Shares in South African Breweries, the world's fourth-largest brewing group, start conditional dealings on the London Stock Exchange today at a price of about \$4.30 each.

The expected pricing values the company at some \$3.4bn, which advisers believe should qualify SAB for membership of the FTSE-100, ensuring interest from tracker funds that shadow the index. The group hopes to be admitted to the index after the quarterly review meeting of the UK indices committee on March 10.

Some UK fund managers had complained that SAB's membership of the FTSE-100 would force them to increase their exposure to emerging markets. This led to market rumours at the end of last week that the issue was in difficulty.

In the event, and after a late rush on Friday, the book was more than covered with more than two-thirds of the placing going to UK institutions. Around a fifth went to US investors and the rest to Europe and Japan.

The group placed new shares worth £150m to finance expansion in eastern Europe. The placing allowed two large South African industrial groups to sell stakes of 4.36 per cent of the existing shares.

SAB is expected to list in London on March 8 following its delisting from the Johannesburg stock exchange on Friday. SAB shares fell more than 3 per cent in Johannesburg on Friday, closing at R80 (€9.00). The shares, which are being split two-for-one for the London listing, will start trading today at a discount of less than 5 per cent to that.

The managers of the placing - Flemings, Cazenove and Goldman Sachs - have the option to raise a further £50m to stabilise trading.

SAB has 98 per cent of the South African beer market and brewing interests in China, eastern Europe and many countries of sub-Saharan Africa. Its move to London is designed to obtain access to deeper and more liquid capital markets, and an active part in the expected consolidation of the global brewing industry.

Lex, Page 18

Olivetti to seek new allies in revamped offer for TI

By Paul Betts in Milan

Olivetti is expected this week to seek new allies to support its €53bn (\$58.8bn) hostile bid for Telecom Italia. The push will follow clearance for a revamped takeover offer, granted at the weekend by Consob, the Italian stock-market regulator.

Roberto Colaninno, chief executive of the information technology and telecommunications business, is trying to enlarge Olivetti's group of core shareholders. This would strengthen his grip on the company and increase his chances of winning the much larger telecoms group in Europe's biggest postwar takeover battle.

He is expected to outline his plans to increase the privatised telecommunications group's value as one way of wooing TI shareholders.

Olivetti officials yesterday declined to comment on Mr

Colaninno's search for new industrial and financial allies to flank his north Italian business partners. These control about 15 per cent of Olivetti through Bell, a Luxembourg-based holding company.

Olivetti denied Italian newspaper reports of behind-the-scenes manoeuvres with TI's core shareholders, including leading Italian banks and insurers and the Agnelli, the powerful Fiat family. These reports suggested Olivetti and the shareholders were considering a compromise that would assemble a group of investors backing a merger between TI and Olivetti.

TI also dismissed these alleged attempts at compromise. Franco Bernabe, TI's chief executive, reiterated that it would be up to the market to decide the outcome of what promises to become a prolonged war of attrition.

Financial analysts consider Olivetti's €10 per share offer -

in cash, shares and bonds - too low. But Olivetti could sweeten its bid, especially if it manages to recruit supporters. Olivetti allies are believed to have already accumulated about 5 per cent of TI.

Mr Bernabe insisted the market will judge the contest on the basis of which side offers the best prospects for increasing TI's value and the best industrial strategy.

Consob's decision to allow Olivetti to proceed with its revamped bid was a setback for TI. The privatised group had described the rejected offer as "full of holes".

By approving the revised bid, Consob has tied TI's hands in taking defensive action. With more than 1.5m shareholders and a stable core of those controlling barely 7 per cent of the capital, TI would struggle to bring together the required numbers to approve a defence under Italy's new takeover rules.



Preparing for a war of attrition: Olivetti chief Roberto Colaninno

Top 10 investment banks take 77% of market

By Edward Luce, Capital Markets Editor

The world's leading 10 investment banks have almost doubled their share of fee-based and advisory business in the global capital markets since 1990, according to the Stern business school in New York. They now have 77 per cent of the market.

The growing concentration of market share in the hands of the top banks has coincided with an explosion in the global capital markets during the 1990s, from total volume of less

than \$1,500bn at the start of the decade to almost \$4,000bn last year, the study showed.

The findings, based on statistics from the US information group Securities Data, showed that the top 20 investment banks increased their share of global capital markets business from 80 per cent in 1990 to 97 per cent last year.

The top 10 are Goldman Sachs, Morgan Stanley Dean Witter, Merrill Lynch, Salomon Smith Barney, Credit Suisse First Boston, Warburg Dillon Read, Deutsche Bank, J.P. Morgan, Chase Manhattan

and Lehman Brothers. "There is still a lot of juice in this business," said Roy Smith, professor of international business at Stern and co-author of the report. "You can foresee a situation where there are just 10 or 12 banks accounting for almost all of the market."

The growth in concentration has been boosted by several trends. First, the average size of deals in the international debt and equity markets has increased sharply. This has disproportionately benefited banks with the largest and most efficient balance sheets.

The growth in deal size has been spurred by the increasing popularity of privatisation and the more frequent use of the international bond markets by companies and sovereign borrowers.

Second, the investment banking sector itself has consolidated, thus shrinking the number of global competitors while increasing their relative size. For example, SBC Warburg acquired the US bank Dillon Read and was then itself merged with Union Bank of Switzerland. The rationalisation of the sector has also coincided with the retreat of Japanese banks from the market. The only remaining Japanese bank in the top 20 is Nomura International.

Third, a number of US and European retail banks have withdrawn from investment banking, after failing to marry the different banking cultures.

However banking analysts say there is little danger an oligopoly will develop. "If you look at other global sectors such as software, aircraft manufacturing or computers, you see much greater concentration," said one analyst.



EDWARD LUCE
GLOBAL INVESTOR

Not such a capital start

Those expecting instant action in Europe's capital markets after the launch of the euro have been disappointed. The much awaited growth of Europe's tiny junk bond market has been put on ice.

The development of a genuine asset-backed market has also been slow, with only a handful of European banks daring to launch securitisations. And, if you exclude Olivetti's bid for Telecom Italia, the number of hostile corporate bids is virtually zero.

Nevertheless, there are stirrings beneath the surface. Although the sub-investment market looks set to remain quiet for the next few weeks at least, an impressive list of lower rated European investment grade companies has issued bonds for the first time. If the average rating of the European borrower was AA plus before the launch of the euro, it has fallen to about AA minus in the first two months of its existence, say bankers. Nothing dramatic, perhaps, and a long way from the situation in the US corporate bond market where the average rating is BBB plus. But, if you consider that this shift has occurred in just eight weeks, it is significant.

Much of the record volume in European corporate bond issuance can be attributed to public relations; companies like Alcatel, Repsol and BAT have happily sacrificed the liquidity and tighter pricing that comes with issuing in dollars for the kudos to be gained from launching shiny

new benchmarks in the single currency. This explains why the volume of international bonds denominated in euros so dramatically outstripped those issued in dollars in January. However, much of the novelty has worn off and last month the dollar resumed its number one spot in the bond markets, accounting for 47 per cent of all international offerings versus about 40 per cent for the euro.

Interest in the euro is low among US borrowers and investors. From the point of view of large-scale borrowers such as Ford, the Federal National Mortgage Association or General Motors, the dollar is still an attractive currency in which to borrow because it offers a liquid swaps market.

Swaps spreads - the rate at which you swap fixed rate money into floating rate money - remain puny in tight euros. To make matters worse, the markets have been charging three or four basis points for borrowers to swap floating rate euros into floating rate dollars. In a liquid market the charge on the swap should be zero.

For the US investor, the euro has been a non-starter. Quite apart from currency risk - the euro has depreciated by about 6 per cent against the dollar since 4 January - yields in the euro-zone are significantly lower than in the dollar market. With the yield on the 30-year US Treasury touching almost 5.6 per cent last week and the yield on the German 10-year benchmark well below 4 per cent, few US investors

have bothered with the euro. In addition, the forward markets are expecting the European Central Bank to cut interest rates in the next three months while opposite expectations are starting to prevail in the dollar market. So the euro looks set to remain weak against the dollar for some time.

If you exclude the growing Japanese interest in the euro, (which is mostly confined to the safest and largest government bonds) this means that the momentum for the development of the euro-denominated bond markets must continue to be drawn from within the euro-zone itself. The signs are that progress of an undercurrent kind will continue here.

The leading banks say the large Dutch, French and German institutional funds have started to put new money into cross-border bond offerings. Anecdotal evidence suggests a growing number of European retail investors - from the Italian chiropractist to the Belgian dentist - are putting cash into fixed income mutual funds in the same way UK investors are switching out of gilts into Peps specialising in corporate bonds.

Chester Murray, head of Moody's Investors Service in Europe, reckons that the euro-zone will soon boast a handful of "super-funds" managing more than €20bn (\$22.2bn) in assets. With interest rates low, it is a fair bet most of this new money will flow into higher-yielding corporate bonds.

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COMPANIES & FINANCE

Williams set for Swedish purchase

By Susanna Voyte

Williams, the acquisitive security and fire protection group, is today expected to announce a £10m deal to buy a Swedish business.

The agreement to purchase Tempus - which will include the assumption of almost £1m of debt - will bolster the UK group's presence in the Nordic region.

Tempus is the leading fire protection brand in Sweden and will lift Williams's share of the Nordic market from 22 to 26 per cent. The group sells and services fixed and portable fire protection systems.

The deal is Williams's third recent acquisition in the region after deals to buy two businesses in Norway.

Last week Williams strengthened its position in the Asia Pacific region with the £120m (£75m) acquisition of FPD Guardforce in Hong Kong.

The latest deals - combined with the FF£502m (£53m) acquisition of the French Proteg fire protection businesses from Securitas of Sweden in January - are part of an effort to expand Williams's global presence in the fast growing service sector.

The former conglomerate has been focused on security businesses since the £1.2bn deal to buy Chubb, the UK lockmaker, in 1997 and has disposed of most of its non-related businesses.

Scipher weighs up case for flotation

By Thorold Barker

Scipher, the technology development company formed through a management buy-out from Thorn EMI in 1994, is planning to float later this year.

The company, which is 20 per cent owned by EMI, is expected to be valued at about £100m. It would look to raise about £20m of cash through the float to fund new developments, valuing the existing business at £80m.

"We have had no problems so far in attracting [private] funding and are fast approaching the stage where we can put the case to institutional investors," said Kenneth Gray, chairman.

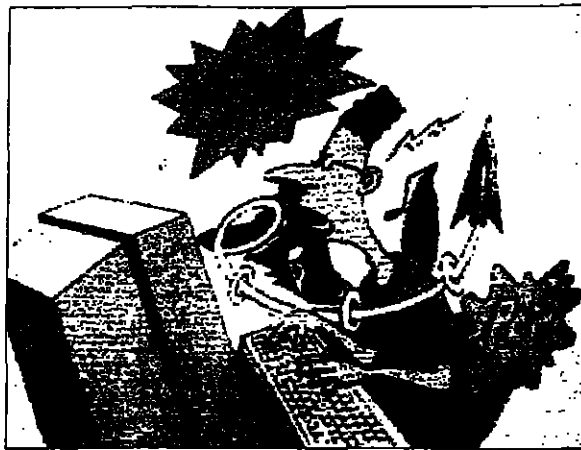
Management bought the company for £3.7m in 1996, when Thorn, the electrical retailer, was demerged from

EMI. Thorn EMI's central research laboratory, which became Scipher, invented the body scanner in the 1970s but was sold off because it was not a core part of either Thorn or EMI.

Advent Limited, the venture capitalist, last month paid £3m for a 12 per cent stake that will fund Scipher for a year. Scipher had a negative cash flow of about £3m last year.

The challenge for Scipher, whose technologies include fingerprint security systems for access into buildings and software for 3-D sound in computer games, will be to convince investors its advanced technologies can be turned into profits.

It made a pre-tax profit of £43,000 in the year to March 31 last year. It is expected to increase turnover of £12.6m by more than 30 per cent



Nerds transported to the third dimension via Sensaura

this year, but profits will remain low because the company spends 20 per cent of turnover on research and development.

Some technologies, like the Sensaura 3-D sound chip, are profitable. Scipher claims the product is used in 70 per cent of the 50m multi-

media PCs sold each year. Others, such as miniature video displays for the next generation of laptop computers, are still being developed and have yet to prove their commercial potential.

BTG, the UK intellectual property manager, which is one of the closest parallels to Scipher, has had mixed fortunes since coming to the market in 1995. Investors have struggled to put a value on its portfolio of technologies, as it does not expect to be profitable for at least two years. It is valued at about £250m.

Scipher takes out patents on new inventions and oversees their development, but takes a more active role than BTG in developing its own technologies. Once products are launched, users pay royalties whenever they employ the technology.

Mirror awaits revised bids

By Lucy Sney

Mirror Group, the UK newspaper publisher, has been encouraging an unofficial auction between its two rival regional newspaper company bidders.

In a sign of Mirror's growing confidence under John Allwood, its new chief executive, the company is expecting this week to receive improved bids from both Trinity and Regional Independent Media, valuing the company at more than £1bn.

Trinity's initial offer of 0.37 per cent of a share for every Mirror share had valued Mirror at about 165p, which was topped by RIM's offer of 200p in February.

Mirror is now thought to be looking for offers nearer to the 230p-240p that some analysts are recommending. "It is clear that an offer of 200p a share did not impress the board," a commentator said yesterday. "They will have to do a lot better."

The more bullish stance being taken by Mirror is expected to be reflected by Mr Allwood when he presents full-year results on Thursday. He is expected to concentrate not on its recent underperformance, but on opportunities for growth.

He is also expected to announce a shake-up of Mirror's divisions and some disposals, with Sporting Life, the racing title, and Live TV seeming obvious targets.

Trinity is expected to announce its improved offer early in the week.

It is thought that the group will indicate a cash and paper offer of between 200p-220p a share, subject to approval by the Monopolies and Mergers Commission.

RIM may try to hold off improving its offer until after the MMC inquiry is completed in about three months, as the passage of time could affect Trinity's share price and therefore the value of its cash and paper bid.

RIM is thought to be looking at making an indicative offer in the region of 220p-235p.

Mirror Group shares closed at 194p on Friday.

Kingfisher eyes CRS outlets

By Lucy Sney

Kingfisher is examining some of Co-operative Retail Services out-of-town superstores with a view to buying them for its DIY store expansion plans.

The UK retail group wants to increase the number of its B&Q Warehouses, as opposed to the smaller superstores, from 35 to 125. It has earmarked £750m for the five year project.

CRS is thought to be interested in selling its large Homeworld stores, which are in out-of-town locations and could be converted easily

from one type of retail use to another.

Although Kingfisher would neither confirm nor deny that it was in talks with CRS, one analyst said yesterday: "You don't need to be a genius to see that it would be a good fit."

The move to expand the B&Q chain, announced in October, shook the hard-pressed DIY industry, which in recent years had seen a number of companies fall victim to overcapacity and price wars. In a trading statement for the nine weeks to January 2, B&Q increased total sales by 3.1 per cent.

MAM back in new trust issue move

By Jean Eaglesham

Mercury Asset Management hopes to raise £30m-£150m (£80m-£240m) for a new investment trust. The move marks the fund manager's first big new issue since it was forced to pull a heavily promoted launch in July 1997 due to lack of demand.

Conventional trust new issues have been few and far between in the past two years. Investors have been reluctant to pay face value for assets when they can buy shares in existing trusts at wide discounts to net asset value. Managers have also struggled to cope with disenchantment with the sector on the part of institutional investors.

MAM's tactics this time attempt to address these problems. Shares will be offered only to a group of in-house private clients, in contrast to the heavy promotional effort used last time.

It has been designed purely for retail investors. "I hope to institution buys it and I don't expect them to," said Lough Callahan, managing director of Mercury Investment Trusts. The investment mandate will be relatively risk averse, using asset allocation techniques to try and generate a consistently positive investment return, rather than a more aggressive benchmark.

It will initially be offered only to the 5,000 or so MAM clients and staff who hold £30m of Merrill Lynch loan notes. MAM said some would want cash, rather than the trust, so it was hard to forecast how much it would raise. The minimum level is £30m. The launch closes on March 24 and is sponsored by Warburg Dillon Read.

COMMENT

Canary Wharf

Large property development recently emerged from bankruptcy. For being unfashionable that is hard to beat. Nonetheless, Canary Wharf is chugging ahead with plans for a flotation. This, the story goes, is not the dog it once was.

With the first phase of the development now fully let, there is truth in this. For one thing, there is an earnings stream to value. Rents have firmed to £30-35 a square foot, partly with the expiry of cheap leases offered in the early 1990s. Canary Wharf has become a doughty competitor in the London office market. In each of the last three years, it has sold or pre-let 1m-1.5m sq ft of office space - roughly a quarter of all the space turned over in the City of London.

Nonetheless, investors should not get carried away. The one third of the development completed and tenanted has been valued externally at £1.4bn. Apply trading and flotation discounts to that and the figure is £1bn. To get to the mooted £2.6bn top whack market value, investors thus need to value Canary Wharf's ongoing developments, land bank and tax losses at more than £2bn (£3.2bn), before lopping off £300m of on-going debt. By any standards, this looks aggressive.

It looks particularly racy given Canary Wharf's exposure to the volatile financial services market. Can it continue to poach City residents? Low rents helped it get a foothold in the City office market. But bankers may not relocate east if Canary Wharf pushes prices up to the City's £45 a square foot.

European stock markets

The idea of Stockholm's stock exchange moving its daily closing time from 5pm to 10pm may seem bizarre. But it shows the mounting pressure Europe's fragmented stock markets face from the US. The purpose of the move is to claw back trading in Swedish shares - particularly Ericsson - that has been lost to New York.

Against this background, it is welcome news that the London Stock Exchange is putting more flesh on the bones of its alliance with Frankfurt. Harmonising trading hours is a sensible step. Nonetheless, the leisurely pace at which the alliance is moving continues to prompt concern. It is significant that Sweden - Europe's only quoted exchange - is both quicker and more radical in its thinking than member-led rivals.

NEWS DIGEST

PUBS AND HOTELS

Vaux sale committee reduced to three

Two non-executive directors of Vaux have stepped down from the sale committee overseeing the disposal of the UK group's two breweries. Their action is in response to criticism that there was a potential conflict of interest because of their strong company and family links.

Stephen Gibbs is married to the sister of the wife of Sir Paul Nicholson, non-executive chairman, while Anthony Wood is a former executive director. In addition it is understood that Sir Paul will not exercise his board vote over the proposed sale to a management buy-out team led by Frank Nicholson, his younger brother.

The sale committee now comprises just three non-executives - John Conlan, Jonathan Cartwright and Judy Atchison. It could today announce that the sale has been completed, but it is more likely to extend the exclusivity agreement granted to Frank Nicholson's team four weeks ago. David Blackwell

TELECOMMUNICATIONS

Remec bids £19.1m for Airtech

Remec, the US mobile telecommunications group, has made a £19.1m (£30.6m) agreed bid for Airtech. The UK group will become the launchpad for the US group's expansion into Europe.

"The merger will assist us in selling our products in the US as Remec's products are technologically compatible with Airtech's," said Nick Randall, Airtech chairman.

When Airtech announced an approach had been made last month, its share price was 27½p. Last Friday, after it was revealed Remec's offer would be valued at 41.9p, the shares rose to 38½p, valuing the group at £17.5m.

Investors holding more than half of Airtech's equity have agreed to the deal, including the Randall family which holds 40 per cent.

Remec offered a significant premium for Airtech's total share capital and the deal will be settled through the issue of Remec shares. "But calling the deal a merger is beneficial from a tax point of view," Mr Randall said. "It was a condition set by Remec. I'm pretty confident the SEC will allow it." Michelle Joubert

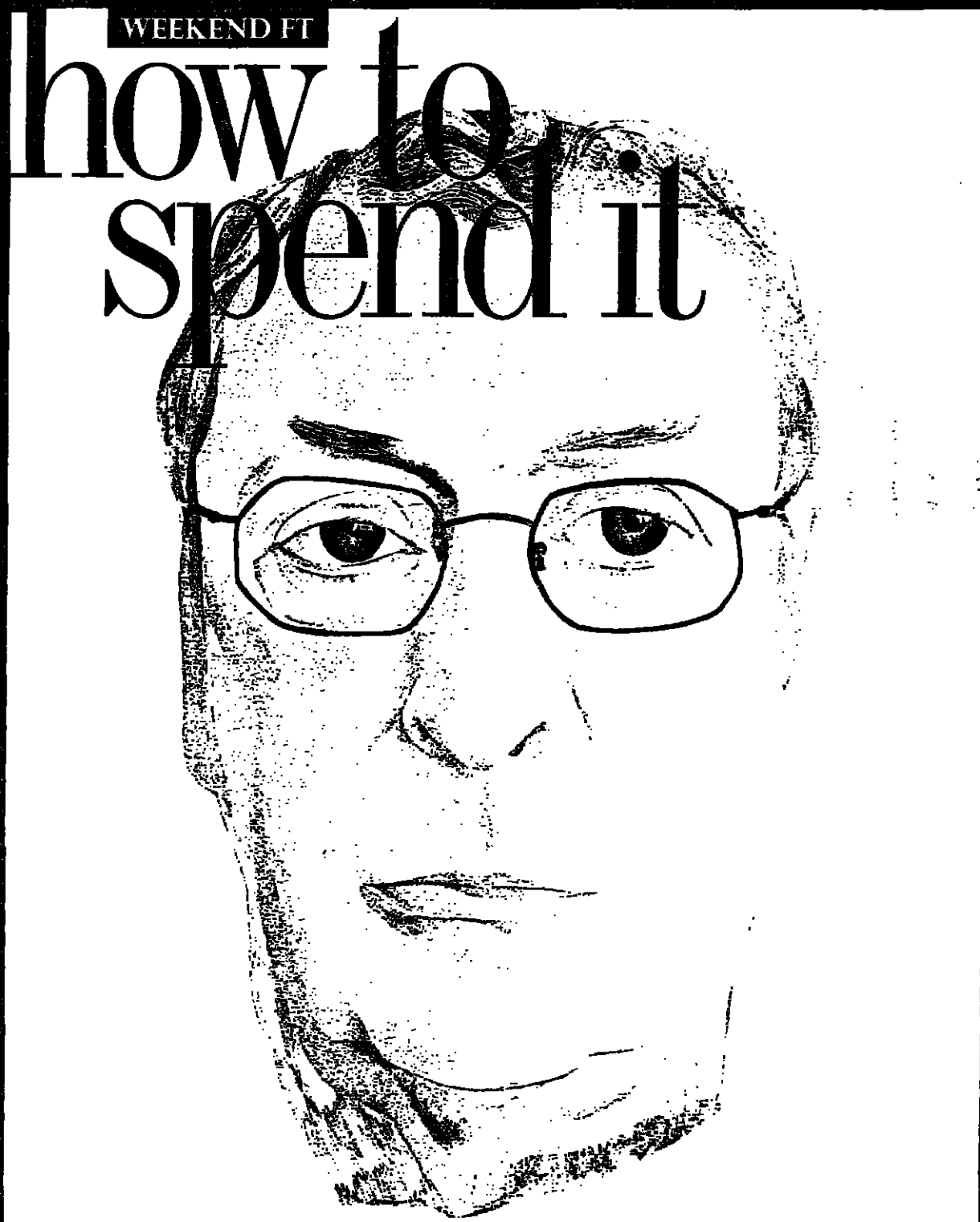
ENGINEERING

Sweet deal for UBS Capital

UBS Capital, the private equity division of the Swiss bank, has bought Aquarius Group, the world's leading maker of machinery for the production of lollipops and sugar cubes.

The Dutch company, which also makes specialist packaging machinery, is believed to have been sold for a considerable premium to its annual sales of about Fl 50m (£25m).

The deal is unusual because UBS has started to look for a chief executive, who will be offered equity participation, to run Aquarius only after completing the buy-out. Clay Harris



framing Caine, jogging brain, regaining fame

Icons through the eyes of a portrait painter, a new fitness regime for the brain and Yohji Yamamoto's second honeymoon with the fashion world. All in how to spend it magazine, free with the Weekend FT this Saturday.

FINANCIAL TIMES

No FT, no comment.

Republic of Ecuador
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For the six months February 26, 1999 to August 31, 1999, the Bonds will bear interest at 6 per cent annum. August 31, 1999 will be a Reduced Interest Payment Date. On such date, U.S. \$22.20 of interest per U.S. \$100.00 face amount of Bonds will be payable and U.S. \$77.80 of interest per U.S. \$100.00 face amount will be capitalized. The sum of all capitalized amounts to and including August 31, 1999 is U.S. \$64.35 per U.S. \$100.00 face amount of Bonds.
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March 1, 1999

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By The Chase Manhattan Bank as Fiscal Agent
Banque Nationale de Paris (Luxembourg) S.A.
BNP

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Subordinated
Floating Rate Notes Due 2001
Issued 10th February 1999
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Interest Period 26th February 1999 to 26th May 1999
Interest Amount per U.S. \$50,000 Note due 26th May 1999 U.S. \$647.74
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MEDIA UK GROUP TO LINK WITH BERTELSMANN

Pearson in German joint venture plan

By John Gapper, Media Editor

Pearson, the publisher of the Financial Times, and Gruner + Jahr, the German publishing group controlled by Bertelsmann, will today detail plans to launch a new German business newspaper competing with established titles such as Handelsblat.

The German language paper will be edited and published separately from the Financial Times, although it will be printed on pink paper and will draw some articles from the FT's network of correspondents. The companies are expected jointly to invest about £60m (\$96m).

The launch marks an ambitious effort to capitalise on the growth of interest in financial markets in Germany, as well as the country's place at the heart of monetary union. A launch date has not been set, but the title is expected to break even within three years.

Andrew Gowers, formerly deputy editor of the FT, is to edit the title as well as being one of two co-managing directors of the joint venture company. The other will be Michael Reesitzak of Gruner + Jahr, which is 75 per cent owned by Bertelsmann.

Grunder + Jahr is one of the biggest newspaper publishers in Germany, whose titles include Berliner Zeitung and Hamburger Morgenpost, as well as magazines such as Stern. It also

owns Borse Online, the fast-growing financial magazine.

The companies have not yet fixed a title for the newspaper, although Mr Gowers is now recruiting journalists. The Financial Times brand will appear prominently in the paper, and it will have an internet web site linked to FT.com, the FT's web site.

The Financial Times group already includes the financial newspapers Les Echos in France and Expansion in Spain, but has not had an equivalent in Germany. It decided on a joint venture with the German publisher both to gain from its local knowledge, and to share the financial risk.

The companies believe the market for financial information in Germany is expanding rapidly, and there is room for a paper that combines the authority of traditional German newspapers with the investigative and story-breaking culture of German business magazines.

However, the venture is likely to be seen as risky by some analysts because of the entrenched position of titles such as Handelsblat and the financial pages of established newspapers.

The FT's international circulation has risen by about 37 per cent in the past year, taking its total circulation to 384,000. However it sells only about 22,000 copies a day in Germany, compared with 180,000 in the UK.

Volvo moves to twin-track strategy

By Tim Burt in Stockholm and Nikki Tait in Chicago

Volvo, the Swedish automotive group, has stepped up plans for an ambitious expansion in commercial vehicles by offering an industrial co-operation package to Scania, its Swedish heavy truck rival, while exploring possible bolt-on acquisitions from Navistar, the US truck and engine group.

The twin-track strategy follows the collapse last month of talks between Volvo and investor, Scania's controlling shareholder and the main vehicle for Sweden's Wallenberg industrial empire, concerning a takeover of the Scandinavian truckmaker.

Volvo, which has acquired almost 13 per cent of Scania, has asked senior managers at the company to consider an alliance in developing common engine components, gearboxes, drivelines and fuel systems.

At the same time, Volvo executives in the US are expected to renew talks this week with Chicago-based Navistar on the possible acquisition of the group's heavy truck and school bus operations.

Although the two sides have discussed an outright bid from Volvo, they have failed so far to agree a valuation and the Swedish group is thought to be less interested in Navistar's diesel engine arm.

This has big contracts with Ford, supplying V-8 engines for its pick-up trucks. There has already been speculation in the US that if Volvo did acquire Navistar, the diesel engine business might be taken in-house by the US carmaker or the contracts reassigned.

Navistar is understood to have demanded more than US\$50 a share, valuing the Chicago-based group well in excess of \$3bn. Last week, Navistar shares closed at just below \$40, having risen strongly in recent weeks. Last autumn, they were trading at under \$20. The company yesterday continued to decline to comment about talks with Volvo.

Leif Johansson, Volvo chief executive, is likely to outline the group's commercial vehicle strategy at meetings in the US this week with institutional investors.

Mr Johansson will also be seeking support from investors for the sale of Volvo's car division to Ford of the US for SKr50bn (\$6.1bn) - the subject of a shareholder vote at an extraordinary meeting later this month.

Volvo, which has itself been at the centre of bid speculation in recent months, hopes to use proceeds from the disposal to fund an expansion in its heavy truck business, which currently boasts a 12 per cent market share in North America and almost 15 per cent in Europe.

Following its abortive approach to Scania, Volvo has told its Swedish rival that the two companies could cut their future research and development costs by pooling engineering resources.

Farewell to the 'ladies' and 'hello' to big, fat profits

Dan Bilefsky looks at a revival in the fortunes of bingo as the industry launches its first £5m national advertising campaign

Ever Johnston, a 41-year-old single mother of five, never misses her bingo night. "I will be playing bingo until they lower me into my grave. The bingo hall is my second home."

It is Friday night in south London, and more than 500 people have crowded into Gala's bingo club - a 1930s cinema modelled on a Venetian palace - in Tooting.

There is £200,000 at stake in the National Bingo Game, in which 800 clubs across the UK pool their prize money.

Ever thinks this might be her lucky night. She has already spent £50 and it is already 9pm, but she is unrepentant. "Bingo is my night out on the town and it's important to me."

A bingo revival is upon us. The game's core constituency - women between the ages of 35 and 55 - is increasing in number. Above all, bingo stands to benefit from recent advertising deregulation.

To many, bingo is still redolent of old ladies and tea urns. But in April the National Bingo Game Association will try to wash away bingo's blue rinse image when it launches its first £5m national advertising campaign.

The ads will feature drag comedian Lily Savage, and appear during episodes of Coronation Street. With or without her, bingo is enjoying a high profile. Last week Paul Gascoigne, the football player, announced he was playing

bingo with his mother to try to overcome his alcohol problem. Celebrities at the recent Brit Awards for pop music played bingo after the ceremony.

There is a lot of money at stake. Gaming Board figures show a rise from £906m spent on bingo in 1995 to more than £1bn (\$1.6bn) in 1998 - and that does not include money spent on admission, amusement machines and catering.

A study by Mintel, the market research group, shows total admissions running at about 100m a year, compared with 96m in 1996.

Bingo has taken a hammering during the past five years because of the advent of the National Lottery.

Total admissions were running at 108m in 1994 but fell 12 per cent by 1996. However, John Kelly, chief executive of Gala, Britain's largest operator of bingo clubs, is confident. He believes bingo is Britain's "new growth industry". Two factors particularly help the two largest operators, Gala and Mecca, which together account for about 60 per cent of admissions.

First, tough competition from the lottery has forced the pace of consolidation within the sector. Small operators of traditional clubs have found it hard to compete, and many have closed.

In the past 18 months, many of the larger leisure groups such as Bass, First Leisure and Vardon (now

renamed Cannons) have quit the business, leaving the field open.

Their departure enabled Mr Kelly to take over Gala. When Bass decided to sell its bingo business in December 1997, he persuaded PPMV, the venture capital arm of Prudential, to back his £273m purchase of Gala.

Just six months later, the men from the Pru backed his acquisition of 17 Ritz clubs for £36m. Not only has the consolidation helped Mr Kelly expand his operation, it has improved business conditions too.

Mr Kelly says: "It has helped stop the wars of attrition that used to occur. A town could have a big Mecca, a Gala and a Ritz all fighting for the same market, which reduced margins and destroyed our customer base."

Second, the recent liberalisation of advertising laws should also benefit the large operators most because they can promote their chain nationally. One analyst said: "Simple mathematics dictate that the larger the club, the larger the prize money, so big clubs such as Gala will be the winners."

Certainly Gala has had a good start. In the 12 months to September 1998, like-for-like operating profits increased 23.3 per cent to £29.1m, while turnover grew 10.5 per cent to £168m. Spend per head increased 6 per cent from £5.66 to £5.93, while



Cheer: the numbers may be starting to add up again

like-for-like admissions increased 1 per cent.

A 1 per cent like-for-like increase may not seem like much, but Mr Kelly says the structure of the business means that new admissions go straight to profit.

"The big piece like Bass tended to focus on increasing profit margins. But from day one I thought the answer was to increase volume. We are a highly geared business, so that once you've covered your cost base, the money from each new admission drops straight to the bottom line."

Gala is also doing well against Mecca Bingo, its biggest rival, owned by Rank, whose interests span Butlin's, Odeon cinemas, bingo halls and the Hard Rock Cafe chain.

Rank has seen its share price nearly halve in the past 12 months. Its gambling arm, which includes Mecca bingo and Grosvenor casinos, recently announced full-

year operating profits down 7 per cent at £53m. Mr Kelly says Gala's focus on bingo gives it an edge over the competition.

But it is also clear he would like to expand into other leisure areas for which additional capital could be raised on flotation.

Following this positive start, there is speculation that Gala could float in the next year, though Mr Kelly says there are no imminent plans to do so.

For the moment his attention is firmly focused on dispelling the myth that you can still find "two fat ladies" at your local bingo hall.

"Bingo is no longer about old women with a bag sticking out of their mouth and stockings down to their ankles. It is an incredibly fun evening. For about a tenner you can have three hours of enjoyment and walk away with sweaty palms. We need to get this message out."

LVMH steps up Gucci campaign

By Alice Rawsthorn and Peter John

The battle over the future of Gucci, the Italian fashion house, will intensify this week when LVMH, the French luxury goods group, starts legal proceedings against the Gucci board in the Amsterdam Court of Appeal.

LVMH is also lobbying Gucci shareholders with a global mailshot to explain its argument.

Having stealthily acquired 34.4 per cent of Gucci's equity, LVMH is asking the Dutch court to freeze the voting rights on an equivalent number of new shares issued 30 days ago by Gucci to a newly created employee share option plan (ESOP).

LVMH is telling Gucci investors it does not plan any form of takeover and is not intending to increase its stake. It stresses that it merely wants to enhance shareholder value, and points to margins of about 40 per cent on its Louis Vuitton label compared with margins of 25 per cent for Gucci.

The court case is expected to start on Wednesday, the day after Tom Ford, Gucci's chief designer, is expected to unveil his new women's wear collection at Milan fashion week.

LVMH is suing on the grounds that the share issue was an abuse of the spirit of Dutch corporate law. Gucci, which is trying to prevent the French group from exercising what it calls "creeping control" without mounting a full bid for 100 per cent of its shares, insists it was lawful.

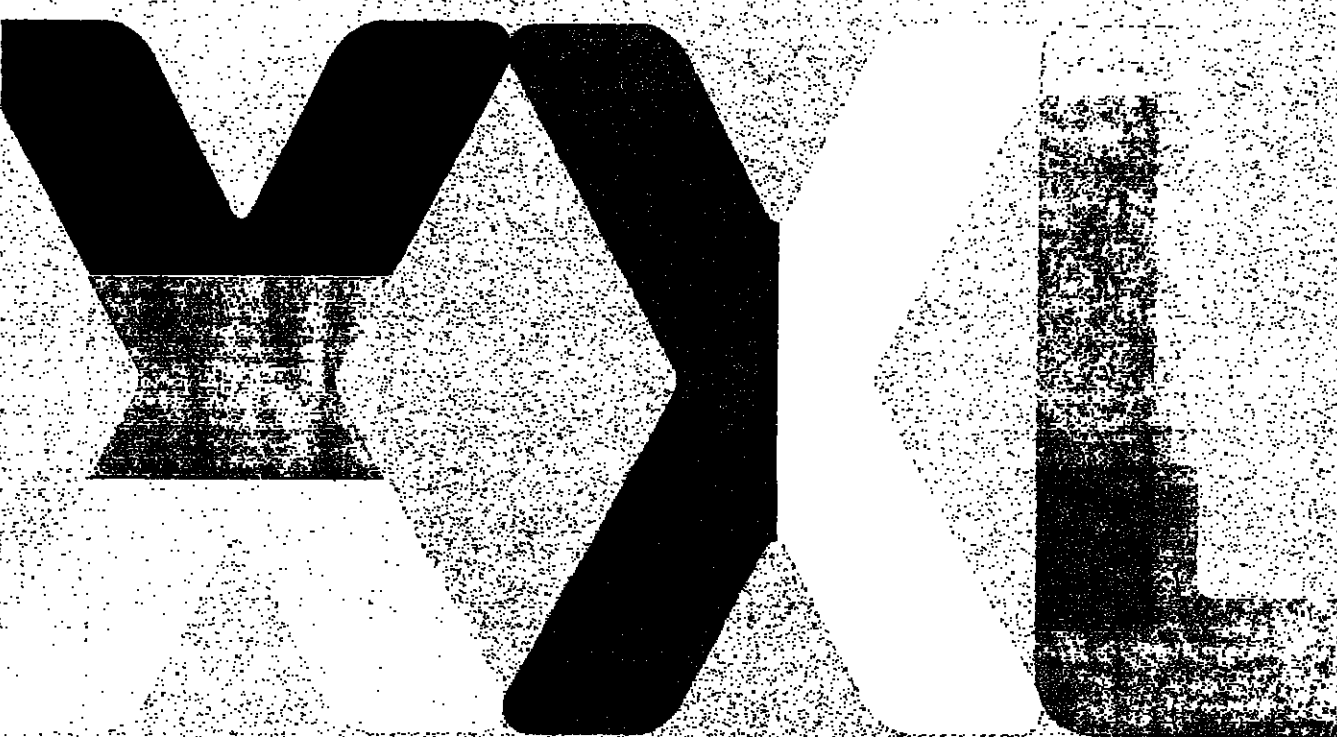
Bernard Arnault, chairman of LVMH, who already controls the Christian Dior and Christian Lacroix fashion houses, hopes to secure an injunction to freeze the voting rights on the shares before an extraordinary meeting of Gucci's shareholders later this month.

LVMH exercised its right as a 10 per cent-plus investor to call for the meeting to vote on its proposal that a nominee director be appointed to the Gucci board. Unless LVMH wins the Amsterdam case, its votes will be blocked by the ESOP shares, and Gucci's independent shareholders will decide whether to endorse the nominee's appointment. The date of the meeting will be disclosed later this week.

Both groups have been trying to persuade Gucci's independent shareholders to support them.

Gucci is being advised by Morgan Stanley and LVMH is being advised by Goldman Sachs.

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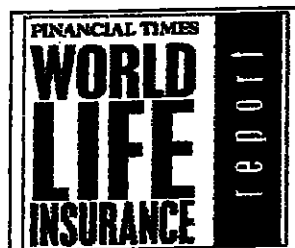
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Notice is hereby given that the rate of interest for the period from March 4, 1999 to June 4, 1999 has been fixed at 2.96 per cent per annum. The coupon amounts due for this period are FRF 74 per denomination of FRF 10,000 and FRF 740 per denomination of FRF 100,000 and are payable on the interest payment date June 4, 1999.

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COMPANIES & FINANCE

EMERGING MARKETS INTEREST RATES SHOW SIGNS OF EASING BUT SIGNIFICANT ECONOMIC RECOVERY IS NOT EXPECTED THIS YEAR

Poor start to year for Colombian shares

By Adam Thomson in Bogota

Economic recession, higher taxes and asphyxiating interest rates have not provided the best of starts for Colombia's stock markets this year.

Since the beginning of January, Bogota's IBB Stock Market Index has fallen 20.5 per cent in dollar terms, and is now the region's third worst performer after Brazil and Venezuela. Last week, the index fell 5.1 per cent. Equity investors were edgy as fears mounted that an imminent Constitutional Court verdict might deem unconstitutional a government decision taken at the end of last year to declare an economic emergency.

Under the emergency - a constitutional clause that allows governments to implement extraordinary measures without consulting Congress - President Andres Pastrana's administration ushered in a 0.2 per cent tax on all banking transactions to prop up a precarious banking sector. The tax, though considered necessary to avoid further macroeconomic complications, will likely add to a range of problems affecting company performance this year.

High real interest rates through most of 1998 have plunged the economy headlong into recession, increasing unemployment and stunting internal demand. Last week the government's National Planning Department announced that gross domestic product growth last year was only 0.3 per cent, the lowest since 1942.

'This year has started with a deplorable investment climate, a plethora of companies in very fragile positions and weak demand due to low incomes and high interest rates'

According to Armando Montenegro, president of the National Association of Financial Institutions (Anif), the poor performance is sure to persist in the first half of this year.

"This year has started with a deplorable investment climate, a plethora of companies in very fragile positions and weak demand due to low incomes and high

interest rates," he said. Yet there are concrete signs that rates are easing and will continue to fall.

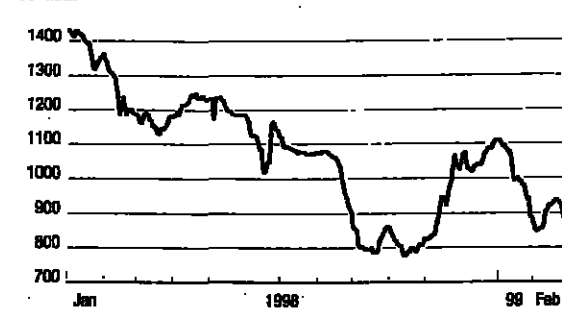
Benchmark interest rates have come down approximately eight percentage points since November, thanks largely to a more expansionary monetary policy by the country's central bank; a key decision by Moody's, the US credit rating agency, at the end of last year to maintain its Baa3 investment-grade rating on Colombia's sovereign bonds; and subsidising exchange rate pressure as fears of devaluation dissolve on the back of approximately \$2bn of multilateral loans this year.

The fall in interest rates provides a degree of encouragement for the country's three stock markets. Benchmark rates now stand at 28.8 per cent given year-on-year inflation of 17.2 per cent. As a result, finance minister Juan Camilo Restrepo has already come good on the first part of his promise made last year to lower rates to 30 per cent by March and to 27 per cent by June.

Yet given last year's worse-than-expected growth, analysts are still not convinced that the lower inter-

Colombia

IBB index



Source: DataStream/FT

est rates will be sufficient to haul the country back from recession in time to see significant economic recovery in the second half.

One of the main repercussions for companies is vastly reduced internal demand as Colombia's 38m residents spend less while unemployment rises.

Last year, unemployment was 15.9 per cent of the workforce, the worst figure since statistical methodology was standardised 23 years ago. This year, analysts warn, unemployment is set to reach 18.9 per cent.

Also, a new tax reform that has greatly expanded the base of VAT, affecting

advertising, airline tickets and processed foods, among others, is likely to dampen consumer demand still further. The Congressionally approved reform, past in December, forms part of the government's strategy to cut last year's fiscal deficit of 4 per cent of GDP to 2.2 per cent this year.

However, it is also likely to have serious repercussions for growth. Santander Investment in Bogota estimates that GDP growth this year will be a mere 0.9 per cent.

Anif, which had originally estimated growth of 1 per cent in 1999, said that figure will now be closer to zero.

The depressing domestic scenario, together with the aggravation this year that lingering global financial instability may frustrate companies' access to financing through the international capital markets, stands to kill off much investor interest in the Colombian stock market.

Analysts at Santander Investment say the IBB index will recover 18 per cent in dollar terms from now to the year-end, which is not enough to make up for the lost ground since January.

However, the overall poor performance - market capitalisation is now a meagre \$6.6bn compared with almost double that at the beginning of last year - cannot be blamed on macroeconomic factors alone.

Many Colombian companies have simply failed to make the transition from family-run businesses to enterprises that maximise the returns for their shareholders.

"Colombian companies are not like companies in the US, for example, where the importance of corporate governance is clearly understood," said a local stock market analyst.

Nokia aims to increase staff by 25%

By Tim Burt in Stockholm

Nokia, one of the world's largest mobile telecommunications groups, is planning to increase its workforce by up to 25 per cent this year as part of an aggressive recruitment drive in the software industry.

The strategy is expected to involve a rapid expansion of research and development into internet services and wireless imaging by the Finnish company, which competes head-on with Motorola of the US and Sweden's Ericsson for leadership of the mobile handsets and systems sector.

Senior executives believe the group should focus more on "acquiring human capital", rather than pursuing large takeovers in telecoms and data communications.

The latest recruitment drive follows a rapid expansion of Nokia's workforce in recent years. Of the group's 45,000 employees, 28,000 have joined the company in the past three years.

"Nokia is increasingly becoming a software company and that requires expertise, not just bolt-on deals," said one board director.

As part of the expansion, Nokia has increased its R&D staffing to 13,000. Of that total, 60 per cent are now software engineers.

The company, which last year reported a 74 per cent increase in profits to FM14.6bn (£2.6bn, \$2.7bn), said the strategy would also involve further out-sourcing of assembly and component supply operations.

"This company has been at the forefront of sourcing non-core activities elsewhere," said one executive. "We manufactured our last printed circuit board in 1992."

The move follows signs of slowing growth in traditional mobile telephone usage and intense price competition in the sector.

Nokia is predicting that data traffic on mobile systems - internet, electronic mail and fax activity - will increase by 40-50 per cent this year, while growth in voice traffic is likely to remain flat.

Among young mobile phone users in Finland, which has the world's highest penetration of mobile communications, six out of 10 connections were by electronic messaging.

Since the start of this year, mobile telecoms penetration in Finland has overtaken fixed lines for the first time, reaching 56 per cent.

Globally, Nokia is forecasting sales and profit growth of 25-35 per cent this year.

If achieved, that would lift its 1999 profits from FM18.25bn to FM19.7bn, on sales up from FM73.2bn to more than FM100bn.

Given the growth targets, industry analysts had been expecting Nokia to pursue a large takeover. Such speculation was fuelled by the company's recent proposal to consolidate its separately-traded A and K shares.

Senior officials, however, said the group was more likely to seek small acquisitions while concentrating on rapid organic growth.

Lycos chief on the defensive over merger

By Roger Taylor in San Francisco

Robert Davis, chief executive of Lycos, is fighting hard to defend the planned merger of his high-flying internet company with the less glamorous Home Shopping Network, the television shopping channel.

In a series of presentations last week, the first by Lycos since the announcement of the deal prompted a 20 per cent fall in its share price, Mr Davis argued that he was creating the first "next generation internet company".

However, as he defends the deal, he sometimes gives the impression of having lost faith in the strengths of his own company.

At one point in a presentation on Friday, as he enthused over the value of the "real assets" that HSN brought to the deal, he had to check himself and say this did not mean he put less value on Lycos's virtual internet assets. But that was undoubtedly the impression he gave.

Lycos manages a collection of internet sites, including Lycos.com, Tripod.com and HotBot.com, which give it an audience of about half of all internet users. The company is grouped with Yahoo!, Excite and America Online as one of the internet portals - companies that guide users around the internet and offer a wide range of services from search to e-mail, news and chat.

Lycos has long had ambitions to be more than a portal. It wants to be an internet retailer. After all, why should it direct its audience towards an internet clothes shop, when it could sell clothes itself? Hence the merger, which will create USA Lycos by combining Lycos with two operations owned by USA Networks: Home Shopping Network and Ticketmaster Citysearch.

Mr Davis says the deal will give Lycos access to the real assets needed to become a large retailer - assets that none of its competitors have. HSN has the ability to handle in calls and ship up to 200,000 packages a day. It has revenues of \$1.5bn and, unlike Lycos, it is profitable.

Lycos's competitors are also wanting to get involved in retailing. There is general agreement that e-commerce, not online advertising, is the richest vein of revenues on the internet. However, none has ventured as far as Lycos



Robert Davis: confident that shareholders will approve deal

away from the web and into the real world.

For example, Yahoo! will host internet retailers on its site and will point people towards them in return for a fee. However, that is as far as it goes. The retailer handles taking the order and shipping goods. Yahoo! remains focused on the high-growth high-margin business of directing traffic around the web.

The risk is that Yahoo! customers may stop using its services and start going directly to their favourite retailers. Portals such as Yahoo! are trying to make their services as "sticky" as possible to prevent customers leaving, for example, by getting them to store their credit card information in one place on the portal site. Lycos has taken the ultimate step in making its service sticky by becoming the retailer.

The downside to this is that the company must now get involved in the grubby low-margin business of handling stock inventories and shipping products to customers. This is not the sort of activity in which Lycos's shareholders want to invest.

Mr Davis outlined many other positive aspects to the Lycos deal such as the opportunity to cross-market services on TV and the internet. He was particularly persuasive in pointing out how Lycos would bring new efficiencies to HSN, such as allowing it to offload unwanted stock through online auctions and to take orders over the net rather than the phone.

He said he was confident shareholders would approve the deal. If so, we will soon see whether Lycos will be able to lift HSN into the high growth world of the internet or whether HSN will drag Lycos down.

PARIBAS

Net income excluding minority interests: EUR 1,002 million
26% growth in net income, excluding minority interests and discontinued activities

In 1998, Paribas achieved growth in revenues of 19%. Net income, excluding minority interests, amounted to EUR 1,002m despite the effects of the financial crisis. The cost of risk in emerging countries resulted in a charge of EUR 387m. Total provisions stand at EUR 706m, representing an overall provisioning rate of 27% of outstandings in 5 sensitive Asian countries, of 100% of Russian outstandings and a general provision of EUR 195m for the other countries.

These figures do not include the provision for restructuring costs to be retained should plans to join forces with Société Générale proceed (EUR 400m, net of tax). Paribas' net income, excluding minority interests, of EUR 1,002m will be corrected automatically if Société Générale's public share exchange offer in France is a success.*

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Revenues, pretax income and ROE per core business

In millions of euros	Specialized financial services	Asset management and Banking services	Corporate and investment banking	Proprietary investments	Real estate	Other	Total
Revenues (1)	1,504	1,013	1,982	687	109	372	5,666
97/98	+ 7%	+ 25%	+ 11%	+ 24%	+ 59%	+ 15%	+ 19%
Pretax income excluding goodwill amortization	421	181	42	659	63	165	1,531
97/98	+ 8%	+ 50%	+ 75%	+ 25%	+ 153%	ns	+ 31%
Pretax ROE	26%	27%	1%	35%	9%	12%	16%

(1) Including revenues on allocated equity.

19% growth in revenues and 31% in pretax income for the 6 core business lines

Specialized financial services. With pretax income of EUR 421m (+ 8%), this core business shows a pretax return on equity (ROE) of 26%. The different business units continued their international extension and a large number of partnerships were signed. Loan production generated outside France now accounts for 27% of the total.

Asset management and Banking services. Pretax income enjoyed strong growth, reaching EUR 181m (+ 50%), equal to pretax ROE of 27%. Assets under management also grew significantly (+ 19%) from the combined effect of sustained inflows (+12%) and good market performance (+ 7%). Cardif, Cortal and Institutional and Private Asset Management all enjoyed excellent years. The Securities Services business also reported extremely strong growth.

Corporate and investment banking. Revenues (excluding the cost of risk on emerging countries) increased by 11%, despite the effects of the crisis in the financial markets, reaching EUR 1,982m due in particular to strong growth in customer revenues (+ 12%). Increased expenses (+ 21%) were linked to continued staff expansion (430 new employees) and investments required to adapt the Bank's computer systems to the euro and the year 2000.

Revenues from capital market activities grew by 14%. The negative impact of EUR 387m, due to the financial crisis in the emerging countries, is entirely carried by this core business line.

Proprietary investments. Pretax income for Proprietary investments increased by 25% principally through the growth in realized capital gains (EUR 597m, + 40%). Unrealized capital gains increased by 34% to reach EUR 3.1m for a total estimated portfolio value of EUR 6.5bn (+ 8%). This performance testifies to the recurrent nature of the income generated by Paribas Principal Investments.

Real estate. Pretax income amounts to EUR 63m (+ 153%), equal to a pretax ROE of 9%.

Other activities. Pretax income stands at EUR 165m, chiefly derived from capital gains generated in the financial portfolio.

PARIBAS

PARIBAS INVESTOR RELATIONS

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COMPANIES & FINANCE

GOVERNMENT BONDS THE BOND MARKET APPEARS TO HAVE BEEN LENDING A HAND TO FEDERAL RESERVE CHAIRMAN ALAN GREENSPAN

Treasuries respond to hints on tightening

By Florian Gimbel

Over the past six months, Alan Greenspan, chairman of the US Federal Reserve, has been trying to rein in the booming US economy, largely by talking down the equity market. But his words seem to have fallen on deaf ears, as stocks have continued to soar and as consumer spending – the engine of recent US growth – has climbed to unprecedented heights.

Now Mr. Greenspan appears to be encouraging the US government bond market to do the job of monetary tightening for him. US Treasury yields rose sharply last week in response to Mr. Greenspan's Humphrey-Hawkins testimony, in which he hinted at a possible reversal of last year's interest rate cuts.

The sharp sell-off in Treasuries has led some observers to believe that this marked the end of the current low-yield environment. Yet these worries could prove to be overdone. To be sure, US long bond yields have followed a downward trend over the past 20 years, with every trough less deep and every peak less high than previous ones.

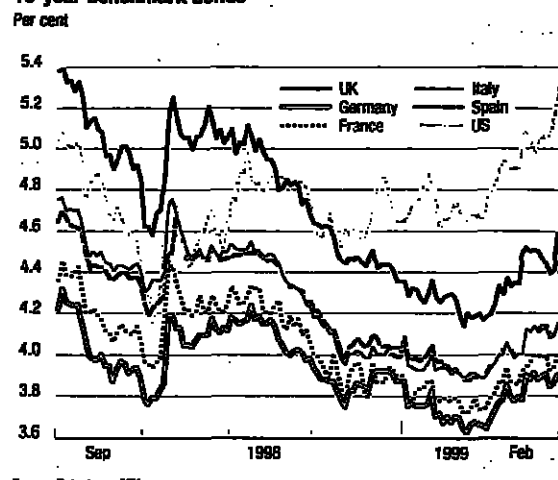
According to Michael Rosenberg, at Merrill Lynch in New York, there have been two important factors at work: "Inflation has been trending down over the past 20 years, and there has been a huge improvement in the [US] government's fiscal position since the early 1990s, following 30 years of budget deficits," he said.

Others see that as part of a global trend. "Dealing in government bonds used to be fun because you knew governments would eventually screw up. But increasingly, governments around the world have realised they are the losing party, thus committing themselves to sound monetary and fiscal policies," said Jan Loeys, managing director at J.P. Morgan in London.

He thought a "stability culture" had evolved, in which central bankers were given the tools and the political support to achieve their goal – keeping inflation at close to 2 per cent.

More recently, the US bond market has benefited from a host of internal as well as external factors. Last year's emerging markets crises, for example, were a blessing in disguise for the US, as the economy bene-

10-year benchmark bonds



Source: Datastream/FT

fited from cheaper imports and lower commodity prices. Domestically, structural factors have improved.

"Both labour and capital productivity had significantly improved at the end of last year; the natural rate of unemployment may be lower than previously assumed; and the nominal wage inflation has not gone beyond the productivity level," said Giles Keating, at Credit Suisse First Boston in London. He emphasised that

bond prices were also benefiting from a "supply squeeze", with the government's budget surplus substantially reducing the public refinancing requirement. Yet analysts agreed that last year's benign external forces appeared to have subsided. "Emerging markets in Asia seem to be in recovery mood and world commodity prices appear to have bottomed out," said Mr. Keating. But he deemed the global upswing "sufficiently soft".

"The external factors have moved from highly favourable to neutral," he said.

The rise in Japanese government bond yields has been another source of concern, as fears of a repatriation of Japanese funds from the US heightened.

Many analysts have remained rather sanguine, as they expect Japanese investors to return at the beginning of the next fiscal year in April, but these analysts also conceded that it was not yet clear how the Japanese government would finance its growing budget deficit. Hence supply concerns and higher JGB yields may continue to haunt both the Japanese and the US bond market.

None the less, most market observers shared the view that US Treasury yields would not break out of their historical downward trend.

"The recent sell-off is nothing more than the market's anticipation of monetary tightening," said Mr. Rosenberg. He added that the Fed funds future contract now implied a 20 basis point interest rate rise. Until then, he expected the US long bond yield to go as high as 5.75 per cent. Negative expectations of

short-term interest rates may thus continue to weigh on the bond market, but the other essential determinants of the US yield curve appear to be well in place.

"Inflation as well as [bond] supply still look highly favourable," said William Dudley, chief US economist at Goldman Sachs in New York. He emphasised the market's immense confidence in the Federal Reserve being yet another reason behind the low inflation, low yield environment.

"For the time being, the bond market appears to lend Greenspan a helping hand in tightening monetary policy. Higher yields take the gloss off the stock market, push up mortgage rates, make corporate issuance more costly, and strengthen the dollar. All of which delivers the necessary dampening effect," said Mr. Keating.

However, most analysts expected Mr. Greenspan to resort to an outright rise in interest rates later in the year, particularly if US retail sales remain strong. Friday's revised fourth-quarter gross domestic product figure showed a stunning 6.1 per cent growth. With statistics like that, interest rates can only go one way.

NEWS DIGEST

ELECTRICAL EQUIPMENT

New Schneider chairman announces cuts of FF2bn

Henri Lachmann marked his first public appearance as chairman of Schneider, the French electrical equipment maker, by announcing a FF2bn (€305m, \$355m) cost-cutting programme aimed at lifting its operating margin by 2 percentage points within three years. The move came as the company announced a 22 per cent advance in annual profits while sounding a cautionary note on the outlook for 1999.

Net income for 1998 climbed to FF2.68bn on sales of FF50bn, against FF2.2bn on sales of FF47.4bn the previous year. Operating income rose 12.6 per cent to FF5.6bn, with earnings per share up 17.5 per cent at FF17.77. A net dividend of FF7.54 a share, up 16 per cent, is proposed.

Mr. Lachmann said planned cost cuts would concern "every department, division and country in the group" and were aimed at making the company more agile and proactive. The company said it had signed a preliminary agreement on selling its last property holdings and would focus on electrical activities. To mark this, it plans to change its name to Schneider Electric. David Owen, Paris

CASINOS

Genting profit drops 46%

Genting, operator of Malaysia's only casino, reported a 46 per cent drop in net profit to M\$414.3m (US\$109m) for the year to end-December. The group, which is also involved in the hotel and plantations businesses, has held its own better than many other Malaysian companies struggling through the Asian recession. Its revenues fell 11 per cent to M\$3.37bn. Sheila McNulty, Kuala Lumpur

ELECTRONICS

Oki Electric issues warning

Oki Electric, the Japanese manufacturer of terminals for automatic teller machines and other data processing equipment, has warned on profits for this year. Oki's downward revision of earnings followed close on the heels of recent reports of huge losses at other Japanese electronics manufacturers, including NEC, Toshiba and Mitsubishi Electric.

It expects sales of Y685bn (\$5.8bn) against an earlier estimate of Y735bn for the year to March. Oki saw its pre-tax loss before exceptional items up from Y33bn to Y49bn. Alexandra Nussbaum, Tokyo

SECURITIES

Sanctuary to link with US group

Sanctuary Group, the UK media concern that manages Iron Maiden, is to set up a joint venture with Global Entertainment Capital, the US investment bank that specialises in securitisation deals and arranged the \$30m Iron Maiden securitisation. The company will concentrate on bringing new securitised assets to the market. Sanctuary will own 25 per cent of the venture, GEO 50 per cent and the rest will be held by outside investors. Khozem Merchant

OIL INDUSTRY

Elf falls in 'bad year'

Elf Aquitaine, the French oil company, has reported a near 37 per cent drop in annual profits in a result it said demonstrated its new capacity to resist an adverse economic climate. After a year described by Philippe Jaffré, chairman, as "a bad year for the oil and gas industry", the group posted consolidated net income of FF3.54bn (€540m, \$593m), down from FF5.6bn in 1997. The group posted a net operating loss of FF844m from oil exploration and production. This included nearly FF4bn of special items stemming partly from the depreciation of certain assets, notably in the Congo. Net operating profit from chemicals edged up to FF2.64bn while profits from health rose strongly to FF2.03bn. David Owen

CLEANING SERVICES

ISS plunges 53%

Denmark-based ISS, the world's largest cleaning services company, said on Friday last year's net profit had plunged by 53 per cent to Dkr211m (\$31m). In 1997, one-off items had boosted net profit to Dkr451m. Operating profit showed a 15 per cent advance to Dkr735m. Clare MacCarthy, Copenhagen

CHEMICALS

Earnings warning from DSM

DSM, the Dutch chemicals group, has warned that tough conditions in key emerging markets would have a "substantial" impact on its first-quarter earnings. The company, presenting its 1998 results, said economic prospects for the current year were highly uncertain, and cited expectations of slower economic growth in Europe and the US as well as developments in south-east Asia, Japan, Russia and Latin America.

DSM said it "expects its results for the first quarter of 1999 to be substantially lower" than last time, owing to a poor showing by its polymers and industrial chemicals division. Last year, net profits rose 4.9 per cent to Fl 914m (€415m, \$456m) on sales of Fl 14bn, an increase of 13 per cent. Jeremy Gray, Amsterdam

WATCHES

Swatch income rises 8%

Swatch, the world's biggest watch manufacturer, has shrugged off the drop in Asian demand for luxury watches and increased its 1998 net income by 8 per cent, to Sfr357m (\$246m). Net sales rose 7 per cent, to Sfr3.2bn. William Hall, Zurich

CONSTRUCTION

Skanska in sell-off plan

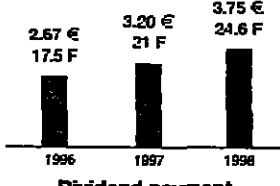
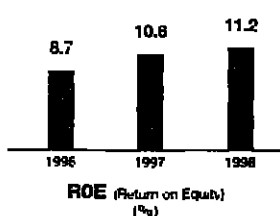
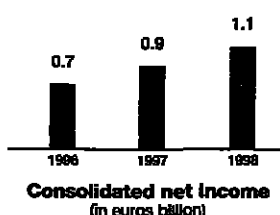
Skanska, Sweden's largest construction company, announced a strong rise in operating profits and said it was to sell its European building component operations as part of its strategy to concentrate on core construction activities. In the 12 months to December, the company reported an operating profit of SKr4.38bn (\$533m) on sales of SKr63.94bn, up from SKr796m on sales of SKr49.58bn a year earlier. Pre-tax profits fell from SKr10.11bn to SKr4.83bn, with 1997 figures including a profit of about SKr3bn from the sale of its stake in Sandvik. Nicholas George, Stockholm

SOCIÉTÉ GÉNÉRALE GROUP
1998 results : 135th profitable year

"The 1998 results, which were obtained in a difficult international climate, confirm the strength of the Group's fundamentals and the dynamic growth trend in Group profitability."

Daniel Bouton, Chairman and CEO

Net income of EUR 1.1 billion (FRF 7 billion), up 15.2%



The 1998 annual results of Société Générale are available on the Internet: <http://www.socgen.com>

Growth in activity

Gross operating income totalled EUR 2.4 billion, an increase of 12.5% compared with 1997.

Retail Banking: results and profitability grew strongly (ROE of 15%). In France, the Société Générale and Crédit du Nord networks continued implementing their active policy of developing their franchise, with 5 million individual customers (+3% per year). Their share of the total market for deposits is 8.6%, a figure which is rising steadily. The Group has a strong presence outside France, with 1.3 million individual accounts held in 18 banks, following the recent acquisitions of Westpac in New Caledonia and the Romanian Development Bank.

Asset Management and Private Bankings: net income rose by 40%, due to a strong growth in activity. Total assets under management have doubled over the last two years (EUR 150 billion at year-end 1998, of which EUR 26 billion in private banking), partly due to selective acquisitions (Yamaichi, Hambros).

Commercial and Investment Banking: within the Investment Banking division, the Equity and Advisory business line produced a remarkable performance, notably in Equity Derivatives, where the Group is a world leader. However, fixed income activities were affected by the financial crisis and Russian risk. The financing business recorded a strong performance in structured finance (project finance and leverage finance). In contrast, plain-vanilla commercial banking activities suffered from the impact of provisioning for Asian risk. The process of adjusting the international network is currently underway and the policy of reducing commitments was maintained.

Reinforced Risk Provisioning

Commitments on the five countries at risk in Asia (South Korea, Thailand, the Philippines, Malaysia, and Indonesia) were reduced by 36% and provisions were reinforced. With provisions of EUR 549 million booked in 1998, the risk coverage ratio on these countries rose from 10% to 27%.

Commitments on Russian counterparties, which amount to USD 341 million, were fully provisioned for.

The provisioning requirements for retail banking activities fell by 28%, due to a favourable economic environment and tighter risk control.

Growth in net income, return on equity and net earnings per share

Group net income came out at EUR 1,073 million, up 15.2% compared with 1997, after recognising:

- Capital gains made on the industrial equity portfolio (EUR 666 million, a rise of 29% against 1997).

- Capital gains generated by the disposal of subsidiaries which did not fit into the Group's core businesses (CIB, Allium and SG2), which amounted to EUR 176 million and were used to reinforce the prudential general reserve, with a total additional allocation of EUR 198 million.

- Provisions booked for restructuring costs relating to the international network and for the year 2000 (EUR 93 million).

Return on equity came out at 11.2%, up from 10.6% in 1997. Net earnings per share were EUR 10.73 (FRF 70.40), compared with EUR 9.67 (FRF 63.40) in 1997, a rise of 11%.

These figures do not take account of the provision for restructuring costs relating to the integration of Société Générale and Paribas, which will be booked in the 1998 financial statements if the public share exchange offer made by Société Générale for Paribas shares is successful (EUR 398 million after tax). After recognising this provision, Group net income will come out at EUR 675 million.

Reinforced capital base

Total equity stood at EUR 11.8 billion, for a Tier-1 ratio of 6.54%, slightly above the level seen at December 31, 1997.

Dividend payment up 17%

The dividend payment proposed to the Annual General Meeting will amount to EUR 3.75 per share (EUR 5.63 with the tax credit, or FRF 36.90), up 17% against the previous year.

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For further information, please consult our Investor Relations department in Paris on +33 1 42 14 54 78

JP 11/10/150

Battle over policy

By Alan Beattie

The market this week will be on the alert for signs of monetary policy changes in the euro-zone and the US. The European Central Bank's governing council meets on Thursday with a very public battle over monetary policy continuing between Oskar Lafontaine, the German finance minister, and Wim Duisenberg, ECB president. Some think Mr. Lafontaine's rhetoric is counter-productive and merely increases the desire of the ECB not to be bounced into a rate cut before it considers the time is right. Recent falls in the euro will also weigh on minds as a de facto monetary loosening that might remove the immediate need for lower interest rates.

And with growth in the peripheral euro-zone, including Ireland, Spain and Portugal, well above that in Germany, the ECB has other countries to consider when making its decision. With the interest rate

futures markets pricing in barely a fall in euro interest rates in the near future, markets may well mark the currency down sharply if the ECB defies expectations and cuts rates. The decision may well come after European and London markets have closed, towards the middle of the US session.

In the US, February's non-farm payrolls, the key piece of labour market data, will be released on Friday, and will be eagerly awaited by a market keen to evaluate the next likely move in interest rates. Payrolls, which grew strongly in January, are expected to continue that performance into February.

Recent comments by Alan Greenspan, chairman of the Federal Reserve, have been seen by many as a softening-up of opinion for future rises in interest rates. This would signal a move away from concerns with international market turmoil and liquidity problems towards the continuing strength of the US economy.

CURRENCIES & MONEY

POUND SPOT FORWARD AGAINST THE POUND

Feb 26	Closing mid-point	Change on day	3 months	6 months	12 months	18 months	24 months	36 months	48 months	60 months	72 months	84 months	96 months	108 months	120 months	132 months	144 months	156 months	168 months	180 months	192 months	204 months	216 months	228 months	240 months	252 months	264 months	276 months	288 months	300 months	312 months	324 months	336 months	348 months	360 months	372 months	384 months	396 months	408 months	420 months	432 months	444 months	456 months	468 months	480 months	492 months	504 months	516 months	528 months	540 months	552 months	564 months	576 months	588 months	600 months	612 months	624 months	636 months	648 months	660 months	672 months	684 months	696 months	708 months	720 months	732 months	744 months	756 months	768 months	780 months	792 months	804 months	816 months	828 months	840 months	852 months	864 months	876 months	888 months	900 months	912 months	924 months	936 months	948 months	960 months	972 months	984 months	996 months	1008 months	1020 months	1032 months	1044 months	1056 months	1068 months	1080 months	1092 months	1104 months	1116 months	1128 months	1140 months	1152 months	1164 months	1176 months	1188 months	1200 months	1212 months	1224 months	1236 months	1248 months	1260 months	1272 months	1284 months	1296 months	1308 months	1320 months	1332 months	1344 months	1356 months	1368 months	1380 months	1392 months	1404 months	1416 months	1428 months	1440 months	1452 months	1464 months	1476 months	1488 months	1500 months	1512 months	1524 months	1536 months	1548 months	1560 months	1572 months	1584 months	1596 months	1608 months	1620 months	1632 months	1644 months	1656 months	1668 months	1680 months	1692 months	1704 months	1716 months	1728 months	1740 months	1752 months	1764 months	1776 months	1788 months	1800 months	1812 months	1824 months	1836 months	1848 months	1860 months	1872 months	1884 months	1896 months	1908 months	1920 months	1932 months	1944 months	1956 months	1968 months	1980 months	1992 months	2004 months	2016 months	2028 months	2040 months	2052 months	2064 months	2076 months	2088 months	2100 months	2112 months	2124 months	2136 months	2148 months	2160 months	2172 months	2184 months	2196 months	2208 months	2220 months	2232 months	2244 months	2256 months	2268 months	2280 months	2292 months	2304 months	2316 months	2328 months	2340 months	2352 months	2364 months	2376 months	2388 months	2400 months	2412 months	2424 months	2436 months	2448 months	2460 months	2472 months	2484 months	2496 months	2508 months	2520 months	2532 months	2544 months	2556 months	2568 months	2580 months	2592 months	2604 months	2616 months	2628 months	2640 months	2652 months	2664 months	2676 months	2688 months	2700 months	2712 months	2724 months	2736 months	2748 months	2760 months	2772 months	2784 months	2796 months	2808 months	2820 months	2832 months	2844 months	2856 months	2868 months	2880 months	2892 months	2904 months	2916 months	2928 months	2940 months	2952 months	2964 months	2976 months	2988 months	3000 months	3012 months	3024 months	3036 months	3048 months	3060 months	3072 months	3084 months	3096 months	3108 months	3120 months	3132 months	3144 months	3156 months	3168 months	3180 months	3192 months	3204 months	3216 months	3228 months	3240 months	3252 months	3264 months	3276 months	3288 months	3300 months	3312 months	3324 months	3336 months	3348 months	3360 months	3372 months	3384 months	3396 months	3408 months	3420 months	3432 months	3444 months	3456 months	3468 months	3480 months	3492 months	3504 months	3516 months	3528 months	3540 months	3552 months	3564 months	3576 months	3588 months	3600 months	3612 months	3624 months	3636 months	3648 months	3660 months	3672 months	3684 months	3696 months	3708 months	3720 months	3732 months	3744 months	3756 months	3768 months	3780 months	3792 months	3804 months	3816 months	3828 months	3840 months	3852 months	3864 months	3876 months	3888 months	3900 months	3912 months	3924 months	3936 months	3948 months	3960 months	3972 months	3984 months	3996 months	4008 months	4020 months	4032 months	4044 months	4056 months	4068 months	4080 months	4092 months	4104 months	4116 months	4128 months	4140 months	4152 months	4164 months	4176 months	4188 months	4200 months	4212 months	4224 months	4236 months	4248 months	4260 months	4272 months	4284 months	4296 months	4308 months	4320 months	4332 months	4344 months	4356 months	4368 months	4380 months	4392 months	4404 months	4416 months	4428 months	4440 months	4452 months	4464 months	4476 months	4488 months	4500 months	4512 months	4524 months	4536 months	4548 months	4560 months	4572 months	4584 months	4596 months	4608 months	4620 months	4632 months	4644 months	4656 months	4668 months	4680 months	4692 months	4704 months	4716 months	4728 months	4740 months	4752 months	4764 months	4776 months	4788 months	4800 months	4812 months	4824 months	4836 months	4848 months	4860 months	4872 months	4884 months	4896 months	4908 months	4920 months	4932 months	4944 months	4956 months	4968 months	4980 months	4992 months	5004 months	5016 months	5028 months	5040 months	5052 months	5064 months	5076 months	5088 months	5100 months	5112 months	5124 months	5136 months	5148 months	5160 months	5172 months	5184 months	5196 months	5208 months	5220 months	5232 months	5244 months	5256 months	5268 months	5280 months	5292 months	5304 months	5316 months	5328 months	5340 months	5352 months	5364 months	5376 months	5388 months	5400 months	5412 months	5424 months	5436 months	5448 months	5460 months	5472 months	5484 months	5496 months	5508 months	5520 months	5532 months	5544 months	5556 months	5568 months	5580 months	5592 months	5604 months	5616 months	5628 months	5640 months	5652 months	5664 months	5676 months	5688 months	5700 months	5712 months	5724 months	5736 months	5748 months	5760 months	5772 months	5784 months	5796 months	5808 months	5820 months	5832 months	5844 months	5856 months	5868 months	5880 months	5892 months	5904 months	5916 months	5928 months	5940 months	5952 months	5964 months	5976 months	5988 months	6000 months	6012 months	6024 months	6036 months	6048 months	6060 months	6072 months	6084 months	6096 months	6108 months	6120 months	6132 months	6144 months	6156 months	6168 months	6180 months	6192 months	6204 months	6216 months	6228 months	6240 months	6252 months	6264 months	6276 months	6288 months	6300 months	6312 months	6324 months	6336 months	6348 months	6360 months	6372 months	6384 months	6396 months	6408 months	6420 months	6432 months	6444 months	6456 months	6468 months	6480 months	6492 months	6504 months	6516 months	6528 months	6540 months	6552 months	6564 months	6576 months	6588 months	6600 months	6612 months	6624 months	6636 months	6648 months	6660 months	6672 months	6684 months	6696 months	6708 months	6720 months	6732 months	6744 months	6756 months	6768 months	6780 months	6792 months	6804 months	6816 months	6828 months	6840 months	6852 months	6864 months	6876 months	6888 months	6900 months	6912 months	6924 months	6936 months	6948 months	6960 months	6972 months	6984 months	6996 months	7008 months	7020 months	7032 months	7044 months	7056 months	7068 months	7080 months	7092 months	7104 months	7116 months	7128 months	7140 months	7152 months	7164 months	7176 months	7188 months	7200 months	7212 months	7224 months	7236 months	7248 months	7260 months	7272 months	7284 months	7296 months	7308 months	7320 months	7332 months	7344 months	7356 months	7368 months	7380 months	7392 months	7404 months	7416 months	7428 months	7440 months	7452 months	7464 months	7476 months	7488 months	7500 months	7512 months	7524 months	7536 months	7548 months	7560 months	7572 months	7584 months	7596 months	7608 months	7620 months	7632 months	7644 months	7656 months	7668 months	7680 months	7692 months	7704 months	7716 months	7728 months	7740 months	7752 months	7764 months	7776 months	7788 months	7800 months	7812 months	7824 months	7836 months	7848 months	7860 months	7872 months	7884 months	7896 months	7908 months	7920 months	7932 months	7944 months	7956 months	7968 months	7980 months	7992 months	8004 months	8016 months	8028 months	8040 months	8052 months	8064 months	8076 months	8088 months	8100 months	8112 months	8124 months	8136 months	8148 months	8160 months	8172 months	8184 months	8196 months	8208 months	8220 months	8232 months	8244 months	8256 months	8268 months	8280 months	8292 months	8304 months	8316 months	8328 months	8340 months	8352 months	8364 months	8376 months	8388 months	8400 months	8412 months	8424 months	8436 months	8448 months	8460 months	8472 months	8484 months	8496 months	8508 months	8520 months	8532 months	8544 months	8556 months	8568 months	8580 months	8592 months	8604 months	8616 months	8628 months	8640 months	8652 months	8664 months	8676 months	8688 months	8700 months	8712 months	8724 months	8736 months	8748 months	8760 months	8772 months	8784 months	8796 months	8808 months	8820 months	8832 months	8844 months	8856 months	8868 months	8880 months	8892 months	8904 months	8916 months	8928 months	8940 months	8952 months	8964 months	8976 months	8988 months	9000 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EURO PRICES

EQUITIES

Weak euro pushes rate cuts off agenda

EUROPEAN OVERVIEW

By Vincent Boland

A cut in the euro-zone's interest rate is unlikely to be top of the agenda when the European Central Bank meets this week to discuss monetary policy, but the weakness of the euro undoubtedly will come up for discussion.

The currency continued its

fall against the US dollar for much of last week and is now below \$1.10. Some observers argue that it is headed for \$1.00 this year, especially if the US Federal Reserve is forced to raise interest rates to cut the level of economic growth there, which came in at an exuberant 6.1 per cent in the fourth quarter of 1998.

Analysts say the euro's weakness rules out any fur-

ther cuts in European interest rates for the moment. Indeed, those cuts that have been forecast - a drop of perhaps 50 basis points in the base rate in the euro zone to 2.5 per cent, probably by the second half of the year - are essentially based on the original view that the euro would be stronger than it currently is.

So the interest rate cut being demanded by the

French and German finance ministers may not be a foregone conclusion. But it is a weak euro entirely a negative thing? Dresdner Kleinwort Benson's portfolio strategy team argue that if the currency remains weak and short rates do not fall, the effect should add 0.1 per cent to the bank's 1999 estimates of economic growth in the euro-zone, and 0.5 per cent in 2000.

That should add 2 per cent and 4 per cent to corporate earnings growth in those years, respectively. "Not enough to bail out the analysts [who are bearish on earnings prospects] but enough to support a possible change in market sentiment," the team says.

So far there have been relatively few earnings shocks from 1998 among the big European companies, although bank results have been severely hit by the turmoil in emerging markets. For 1999, the Dresdner team is forecasting nearly 12 per cent earnings growth based on bottom-up estimates, and 14.5 per cent for next year.

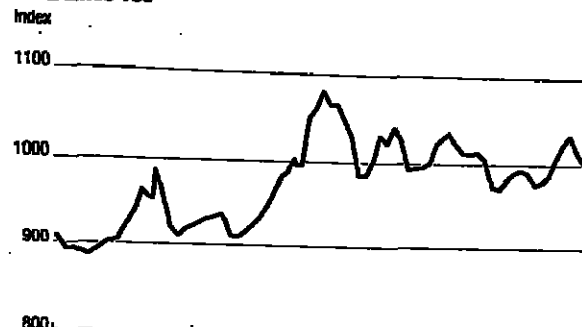
Investors will therefore be looking with some keenness to the ECB's deliberations this week, and hoping for a better showing from bourses after a lacklustre week, especially given the sharp fall in bond markets.

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Feb 26	Currency	Forward	Change	Day's bid	One month	Three months	One year
					Rate	Rate	Rate
Canada	(Cdn)	77.800	-0.127	74.0	37.950	37.900	-5.1
Denmark	(Dkr)	7.465	-0.002	317	7.435	7.415	-2.2
France	(Ffr)	321.751	-0.710	318	322.300	321.800	-0.5
Germany	(Mk)	252.857	-0.670	318	254.700	253.500	-1.2
Greece	(Drm)	8.8904	-0.016	318	8.7050	8.6250	-0.8
Italy	(Lit)	1,415.1	-0.020	318	1,415.1	1,415.1	0.0
Japan	(Yen)	140.123	-0.002	318	140.123	140.123	0.0
Netherlands	(Gld)	20.360	-0.001	318	20.360	20.360	0.0
Portugal	(Esc)	200.484	-0.002	318	200.484	200.484	0.0
Spain	(Ptas)	166.386	-0.002	318	166.386	166.386	0.0
Sweden	(Kron)	9.463	-0.002	318	9.463	9.463	0.0
Switzerland	(Sfr)	9.014	-0.002	318	9.014	9.014	0.0
UK	(Sterling)	1.9367	-0.001	318	1.9367	1.9367	0.0
USA	(Dollar)	0.953	-0.002	318	0.953	0.953	0.0
Argentina	(Peso)	1,067.4	-0.007	971	1,067.4	1,067.4	0.0
Brazil	(Real)	2,377.6	-0.004	718	2,377.6	2,377.6	0.0
Canada	(Dollar)	1,057.1	-0.003	318	1,057.1	1,057.1	0.0
France	(Franc)	10,591	-0.007	201	10,591	10,591	0.0
Germany	(Mark)	1,057.1	-0.003	318	1,057.1	1,057.1	0.0
Italy	(Lira)	1,415.1	-0.002	318	1,415.1	1,415.1	0.0
Japan	(Yen)	140.123	-0.002	318	140.123	140.123	0.0
Netherlands	(Guilder)	20.360	-0.001	318	20.360	20.360	0.0
Portugal	(Escudo)	200.484	-0.002	318	200.484	200.484	0.0
Spain	(Peseta)	166.386	-0.002	318	166.386	166.386	0.0
Sweden	(Krona)	9.463	-0.002	318	9.463	9.463	0.0
Switzerland	(Franc)	9.014	-0.002	318	9.014	9.014	0.0
UK	(Sterling)	1.9367	-0.001	318	1.9367	1.9367	0.0
USA	(Dollar)	0.953	-0.002	318	0.953	0.953	0.0
Asia	(Various)	Various	Various	Various	Various	Various	Various

FTSE EURO 100



Source: FTSE International

THREE MONTH EURO FUTURE (LFF) €1m 100-rate

Mar	Open	Sett	Change	High	Low	Est. vol	Open Int.
Mar	95.940	95.940	-0.005	95.945	95.920	20740	150481
Jun	97.070	97.070	-0.005	97.075	97.050	67250	147044
Sep	97.100	97.100	-0.005	97.105	97.080	63250	147044
Dec	96.790	96.790	-0.005	96.795	96.770	15585	87015

THREE MONTH EURO FUTURE (LFF) €1m 100-rate

Mar	Open	Sett	Change	High	Low	Est. vol	Open Int.
Mar	95.940	95.940	-0.005	95.945	95.920	147	113304
Jun	97.070	97.070	-0.005	97.075	97.050	400	107376
Sep	97.100	97.100	-0.005	97.105	97.080	227	93864
Dec	96.790	96.790	-0.005	96.795	96.770	508	87072

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Mar	Open	Sett	Change	High	Low	Est. vol	Open Int.
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FTSE EUROPEAN SHARE INDICES

European series

Feb 26

National & Regional

FTSE Europe 300

FTSE Europe 100

FTSE Europe 500

FTSE Europe 1000

FTSE Europe 1500

FTSE Europe 2000

FTSE Europe 2500

FTSE Europe 3000

FTSE Europe 3500

FTSE Europe 4000

FTSE Europe 4500

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ALCOHOL & BEVERAGES CONSTRUCTION - Continued ENGINEERING - Continued FOOD PACKAGERS - Continued INSURANCE - Continued INVESTMENT TRUSTS - Continued

**This space has been designated
A STRESS FREE AREA
by those thoughtful people in Asset Management.**

هكذا قالوا له

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE


[illegible]

Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

**KNOWING YOUR INVESTORS IS
ONE THING. KNOWING COUNTLESS
DERIVATIVES IN 20 LANGUAGES IN
125 STOCK MARKETS IS ANOTHER.**


*Strong relationships. That's why we offer an extensive range of products and services
integrated with customized technology solutions. Because while no one knows
your investors like you do, no one knows today's institutional investors like we do.*



Serving Institutional Investors Worldwide™

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Serving Institutional Investors Worldwide™

WORLD STOCK MARKETS

WORLD STOCK MARKETS

FTSE/F&P ACTUARIES WORLD INDICES

The FTSE/F&P Actuaries World Indices are owned by FTSE International Limited, London, and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS	US Dollar Index	FRIEDY FEBRUARY 28 1989	FRIEDY FEBRUARY 28 1989	FRIEDY FEBRUARY 28 1989	FRIEDY FEBRUARY 28 1989	FRIEDY FEBRUARY 28 1989	FRIEDY FEBRUARY 28 1989	FRIEDY FEBRUARY 28 1989	FRIEDY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	US Dollar Index	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	DOLLAR INDEX	US Dollar Index	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY 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1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989	THURSDAY FEBRUARY 28 1989</
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NEW YORK STOCK EXCHANGE PRICES

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هكذا مضى إلى أجل

FRANCE

WORLD MARKETS AT A GLANCE

* See Page 26; Ticker WedgeNet Price 0977.03. \$95 Annualized. † Annualized. ‡ ATRV-GAR after-tax cost per Feb 28 - 0925.98 - 1.58. * Calculated at 15.0% GWT. † Excluding bonds. ‡ Estimated, plus Utilities, Financial and Transportation. ‣ The DJ Ind. Index measures daily's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows represent the highest and lowest values reached.

4 nm since February 2.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100																																																					
Population	27,000	27,100	27,200	27,300	27,400	27,500	27,600	27,700	27,800	27,900	28,000	28,100	28,200	28,300	28,400	28,500	28,600	28,700	28,800	28,900	29,000	29,100	29,200	29,300	29,400	29,500	29,600	29,700	29,800	29,900	30,000	30,100	30,200	30,300	30,400	30,500	30,600	30,700	30,800	30,900	31,000	31,100	31,200	31,300	31,400	31,500	31,600	31,700	31,800	31,900	32,000	32,100	32,200	32,300	32,400	32,500	32,600	32,700	32,800	32,900	33,000	33,100	33,200	33,300	33,400	33,500	33,600	33,700	33,800	33,900	34,000	34,100	34,200	34,300	34,400	34,500	34,600	34,700	34,800	34,900	35,000	35,100	35,200	35,300	35,400	35,500	35,600	35,700	35,800	35,900	36,000	36,100	36,200	36,300	36,400	36,500	36,600	36,700	36,800	36,900	37,000	37,100	37,200	37,300	37,400	37,500	37,600	37,700	37,800	37,900	38,000	38,100	38,200	38,300	38,400	38,500	38,600	38,700	38,800	38,900	39,000	39,100	39,200	39,300	39,400	39,500	39,600	39,700	39,800	39,900	40,000	40,100	40,200	40,300	40,400	40,500	40,600	40,700	40,800	40,900	41,000	41,100	41,200	41,300	41,400	41,500	41,600	41,700	41,800	41,900	42,000	42,100	42,200	42,300

[illegible]

FT GUIDE TO THE WEEK

MONDAY 1

Albright's tours

Madeleine Albright, US secretary of state, arrives in Beijing to begin a visit to China, Indonesia and Thailand to affirm continued US strategic commitments to Asia and discuss issues such as the Asian financial crisis, progress towards free elections in Indonesia and the future of East Timor. Albright will meet senior Chinese officials today and Tuesday to expand a strategic dialogue with China and discuss an expected visit to the US by Zhu Rongji, the Chinese premier, early this year.

No more mines

The Ottawa landmines convention comes into force today. The convention, adopted in December 1997 and signed by more than 130 countries, bans use, production, stockpiling and transfer of anti-personnel mines. Countries that ratify the treaty, 55 so far, are committed to destroying stockpiles within four years and eliminating laid mines within 10 years. But the US, Russia, China and India, all big mine producers, have not signed the pact. About 60m-70m mines lie scattered around the world, killing or maiming 28,000 people every year.

Socialist platform

The European Socialist party meets in Milan for a two-day congress to decide its platform for the June European Parliament elections. Tony Blair, the British prime minister, Lionel Jospin, the French prime minister, Chancellor Gerhard Schröder of Germany and Swedish prime minister Göran Persson are among those expected to attend.

Money talks

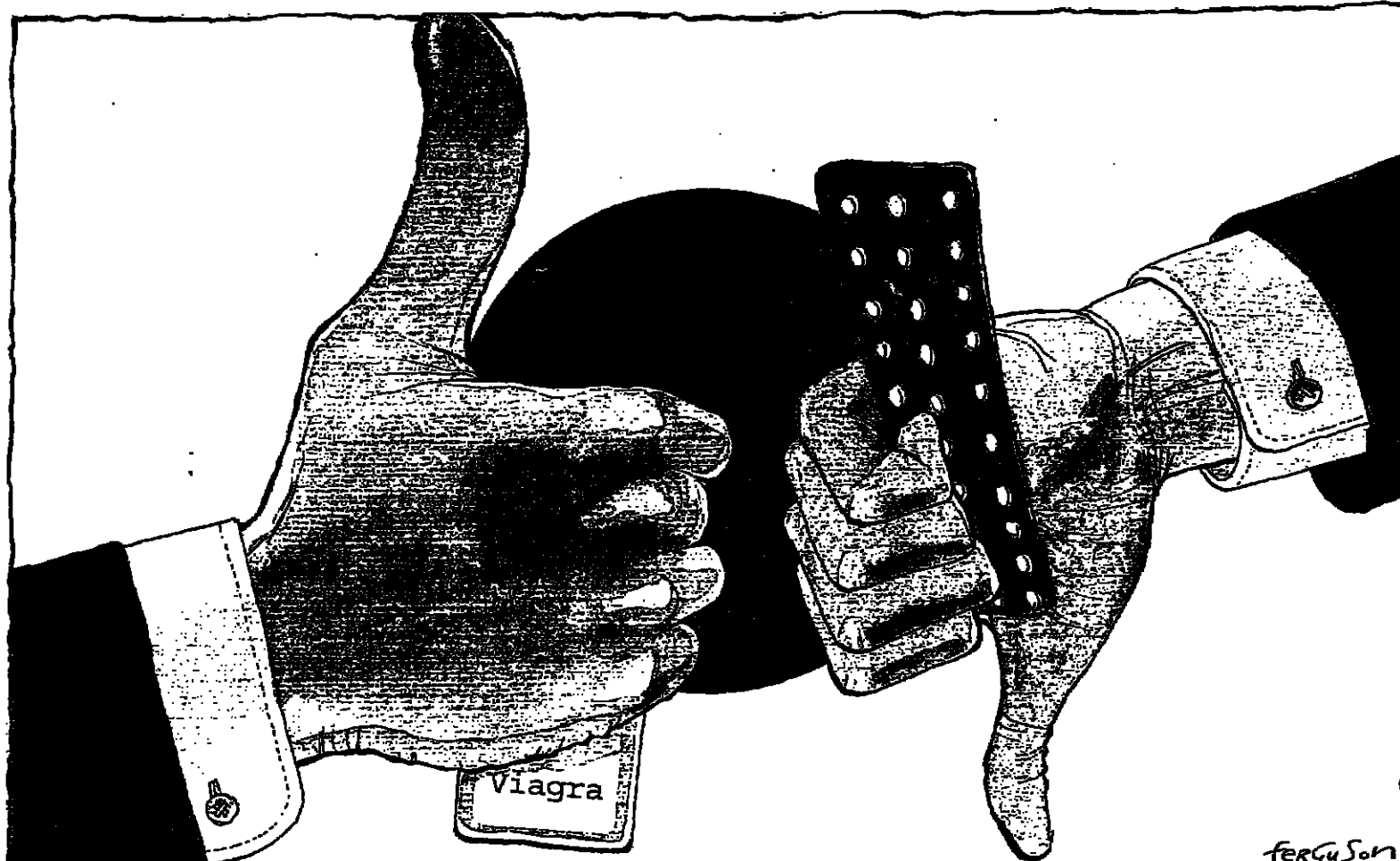
Financial experts including James D. Wolfensohn of the World Bank, Stanley Fischer of the International Monetary Fund, and Kiyoshi Miyazawa, Japan's foreign minister, gather in Tokyo at a two-day symposium on global finance and development. Amartya Sen, 1998 Nobel prize winner in Economics, will deliver a keynote speech.

Developing states

Heads of state from the D-8 (developing eight) group of countries are scheduled to meet in Dacca, Bangladesh. The eight are Bangladesh, Egypt, Malaysia, Nigeria, Pakistan, Turkey, Indonesia and Iran.

All at sea

The International Maritime Organisation and the United Nations Conference on Trade and Development host a



Japan, which took just six months to license the impotence drug Viagra, will on Wednesday consider approving the female contraceptive pill after 30 years' deliberation

two-week conference in Geneva intended to adopt an international convention on the arrest of ships. The draft treaty sets out the conditions under which ships can be arrested as security for a maritime claim, as well as legal safeguards against abuse.

FT Survey

Automotive industry.

Holidays

Sri Lanka, Thailand, South Korea, Paraguay.

TUESDAY 2

Trade dispute ripens

The dispute settlement body of the World Trade Organisation in Geneva is due to establish a panel to examine the controversial Section 301 of US trade law, used by Washington to threaten sanctions against the European Union in their dispute over bananas. Brussels claims that Section 301 contravenes WTO principles prohibiting unilateral trade actions, but the US says its sanctions procedures comply fully with WTO rules.

Ready reactor

The last operational reactor at the Chernobyl nuclear power plant in Ukraine could reopen from today,

according to officials in Kiev. Ukrainian officials are holding talks in Kiev with the European Bank for Reconstruction and Development about financing the construction of two new reactors at the Khmelnytsky and the Rovno plants so that Chernobyl can be closed permanently.

Holidays

Ethiopia, Israel, India.

WEDNESDAY 3

Getting on the pill

The central pharmaceutical affairs committee of Japan's ministry of health and welfare is expected to recommend at a meeting today that the contraceptive pill be licensed. The debate about the female pill has intensified since the ministry approved Viagra, the male impotence pill, in January after just six months' deliberation. The high-dose contraceptive pill has been waiting for approval for 30 years and the low-dose pill for about nine years.

Sanctions demand

The dispute settlement body of the Geneva-based World Trade Organisation meets for the second time in two days. It will discuss a US demand for authorisation to impose trade sanctions on the European Union

in their banana battle. The US claims that under WTO procedures it must be given authorisation to go ahead with sanctions, whose size and direction will be based on an arbitration decision due on March 2. Brussels says the US must wait for a WTO ruling in April on the EU's amended banana import regime.

Commission code

A new code of conduct for European commissioners is unveiled. The code is part of a reform programme introduced by Jacques Santer, Commission president, following protests by the European Parliament at the way it has managed funds.

FT Survey

Review of Information Technology.

Holidays

Israel, Malawi, Morocco, Bulgaria.

THURSDAY 4

Caricom concerns

Leaders of the 15 countries of the Caribbean Community (Caricom) meet in Suriname for two days to discuss the impact on the region of the financial problems of south-east Asia, Russia and Latin America. They will also review the impasse between the

US and the European Union over trade in bananas – a big export for several Caribbean states. The leaders are also anxious to establish a regional appeal court to replace the UK Privy Council as the final appellate court for several countries. They feel that some Privy Council rulings are hampering their plans to retain capital punishment for murder.

Anguilla election

A plan by a Texas company to build a rocket launch pad on an islet is a key issue in a general election in Anguilla in the eastern Caribbean, one of Britain's smallest possessions. The 10,000 people of the territory are divided between the promise of millions of dollars from the launch pad and likely damage to the environment. The launch pad on Sombro Island will be used for commercial satellites, says Beal Industries. There is concern also about a new UK policy towards its overseas territories. Hubert Hughes, the chief minister, said the UK had not consulted the colonies on the plans, which could affect offshore banking and citizenship rights.

New ILO chief

Juan Somavia of Chile takes over from Belgium's Michel Hansenne as director-general of the Geneva-based International Labour Organisation. Mr Somavia, previously Chile's ambassador to the United Nations in New York, is the first ILO chief to

come from a developing country. The most venerable of the UN agencies, the ILO has been criticised for not rising effectively to the challenges of globalisation. Mr Somavia will be under pressure from donor governments to revamp and energise the organisation, which aims to improve the conditions of working people.

Nordic co-operation

Foreign ministers from around the Barents Sea area – the Nordic nations and Russia – meet in Bodø, Norway, to discuss closer co-operation (to March 5).

FT Survey

Wales.

FRIDAY 5

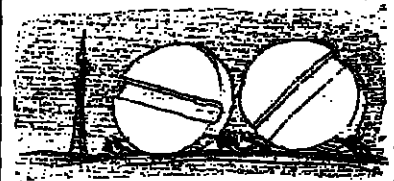
Saints march in

Pope John Paul II is expected to announce the creation of new saints. The current pontiff, who has canonized some 270 people and beatified nearly 800, has created more saints than any other pope in history.

SATURDAY 6

Great relief

Bayer, the German pharmaceuticals group, plans to mark the centenary of



its introduction of aspirin by dressing its 122m high communications tower in Leverkusen as a giant packet of the pain-killing drug.

Holidays

Ghana.

SUNDAY 7

North Korean poll

North Korea holds nation-wide local elections, the first such polls since the death in 1994 of "Great Leader" Kim Il-sung.

Salvadorian choice

El Salvador holds presidential elections; a second round will be held on April 25 if needed.

Motor racing

The Australian Grand Prix, first round of the world Formula One championship, is held in Melbourne.

Compiled by Roger Beale
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ECONOMIC DIARY

Other economic news

Monday: US personal income growth is thought to have remained healthy in January, although consumer spending growth probably slowed a little. Exports to the US are likely to have buoyed Canadian economic growth in the fourth quarter. **Tuesday:** The US purchasing managers' index is thought to have continued the recovery that began in January, while new home sales are forecast to have moderated. Japanese unemployment is thought to have been stable in January. **Wednesday:** The UK purchasing managers' index for services is expected to show the pace of growth in the sector slowing. **Thursday:** Growth in US factory orders in predicted to have slowed in January. The European central bank is not expected to change interest rates. There is a risk of substantial revisions to fourth quarter data showing the German economy shrinking 0.4 per cent. **Friday:** US non-farm payrolls are forecast to have shown a smaller increase last month than in January, keeping the unemployment rate stable.

Statistics to be released this week

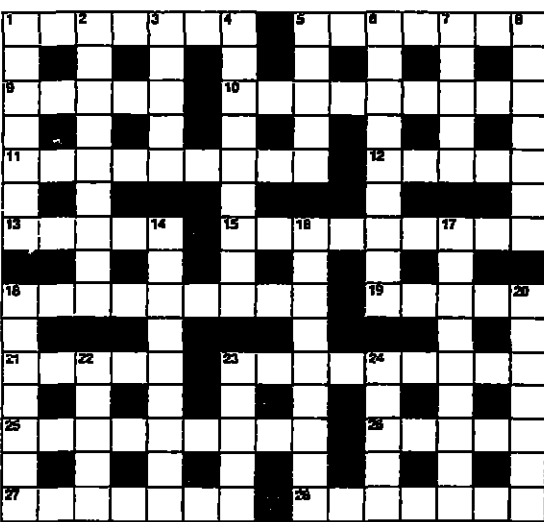
Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon		Australia	Jan balance on goods & services	-\$582.5m	-\$550.8m	Thurs		Japan	Jan overall personal consumer spend**	2.0%	-0.6%
Mar 1		Korea	Feb trade balance customs cleared	\$695m		Mar 4		Germany	Q4 GDP par-Germany*** (stats off)	2.6%	2.8%
		Japan	Feb car sales**	-6.2%				Sweden	Jan trade balance NSA	SK\$11bn	SK\$12.7bn
		Germany	Jan import prices**	-5.8%	-6.0%			Emu	GDP provisional***	0.1%	0.7%
		Japan	Feb foreign exchange reserves*	2.9%				Emu	GDP provisional***	2.2%	2.7%
		Italy	1998 GDP	1.4%	1.5%			Emu	Jan unemployment rate	10.8%	10.9%
		Italy	1998 deficit/GDP	2.7%	2.7%			US	Jan factory orders	2.2%	2.3%
		UK	Jan consumer credit	£1bn	£700m			US	Jan factory inventories	-0.9%	
		US	Jan personal income	0.4%	0.5%			US	M2-week ended Feb 22	\$12bn	\$13.5bn
		US	Jan construction spending	0.5%	1.7%			Japan	Feb overall wholesale price index*	0%	-0.9%
Tues		Australia	Q4 current account balance	-\$57.7bn	-\$57.3bn			Japan	Feb overall wholesale price index**	-4.0%	-4.9%
Mar 2		Australia	Q4 current account balance % GDP	5.1%	4.7%	Fri		US	Feb non-farm payrolls	250,000	245,000
		Japan	Jan unemployment rate	4.3%	4.3%	Mar 5		US	Feb manufacturing payrolls	-5,000	-13,000
		France	Jan producer price index*	0.1%	-0.4%			US	Feb hourly earnings	0.3%	0.5%
		France	Jan producer price index**	-2.6%				US	Feb average working week	34.6	34.5
		Italy	Dec retail sales**	3.3%	4.0%			US	Feb unemployment rate	4.3%	4.3%
		UK	Feb official reserves	-\$3m				US	Jan consumer credit	\$5bn	\$7.3bn
		Emu	Jan harmonised consumer price index*	0%	0%						
		Emu	Jan harmonised CPI**	0.9%	0.8%						
		US	BTM-Schroders Feb 27	2.2%							
		US	Jan leading indicators	0.3%	0.3%						
		US	Redbook Feb 27	1.8%							
Weds		UK	*Feb CBI distributive trades	-9							
Mar 3		Canada	Feb foreign reserves	C\$100m	C\$18m						
		US	Feb NAPM (non-manufacturing)	54%							

*month on month, **year on year, ***quarter on quarter

Statistics courtesy Standard & Poor's M&B.

- ACROSS**
- Rise to show appreciation (5,2)
 - Cover removers in action at the start of the cricket match (7)
 - Mischiefous student in fine form (5)
 - The opportunist moment – watch for it (5,4)
 - Sailor-sat in waterproof material (9)
 - Kaava withdrawn from the pack (6)
 - Feeling frail, I accept it's partly to do with the hip (5)
 - He has a short-service commission (6,3)
 - This is something between Greece and Turkey (6,3)
 - Ventured again to take father out (5)
 - Just as normal as rain (5)
 - For had run into unprecipitated difficulty (7-2)
 - Not a single female will wear this outfit (9)
 - Studies English with little intelligence (5)
 - Drug found at college – put one's foot down (5,2)
 - See it as the simplest form (7)

- DOWN**
- Music-masters* (7)
 - Showing the flag* (9)
 - Pacific islands have got an unusual constitution (6)
 - They go from equator to poles in ever-decreasing circles (9)
 - Musical journal* (5)
 - Then, sadly, two little boys got raised aloft (9)
 - Looking at money in government stocks (5)
 - View from the bats (7)
 - Charles Edward is in hiding, beaten (9)
 - Way home from the inn (9)
 - Broken-down car banned from hoe-down (4,5)
 - New area to decline after rising changes (7)
 - Glance shows a number in fault (7)
 - Search around for the end of the mooring cable (6)
 - Exhaust advice about umbrellas in the rain (3,2)
 - High points of the Danse Macabre (5)



Winner of Puzzle No.9,914: Mrs C. Gresham Smith, Aston on Carrant, Tewkesbury

MONDAY PRIZE CROSSWORD

No.9,926 Set by DANTE

A prize of a Tomboon Lucas fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday March 11, marked Monday Crossword 9,926 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 0HL. Solution on Monday March 15. Please allow 28 days for delivery of prizes.

Name: _____
Address: _____

Solution 9,914

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A S I D I S T R A
K O U L E D I N S T A T I O N
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